DIME COMMUNITY BANCSHARES INC
Form 10-K
March 14, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Year Ended December 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
Commission file number 0-27782
Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
300 Cadman Plaza West, 8th Floor, Brooklyn, NY	11201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (718) 782-6200

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2018 was approximately $633.2 million based upon the $19.50 closing price on the NASDAQ National Market for a share of the registrant’s common stock on June 30, 2018.

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Classes of Common Stock	Number of shares outstanding at March 14, 2019
$0.01 Par Value	35,895,884

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive Proxy Statement to be distributed on behalf of the Board of Directors of Registrant in connection with the Annual Meeting of Shareholders to be held on May 23, 2019 and any adjournment thereof, are incorporated by reference in Part III.

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This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by use of words such as "annualized," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "seek," "may," "outlook," "plan," "potential," "predict," "project," "shoul similar terms and phrases, including references to assumptions.

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. together with its direct and indirect subsidiaries, the "Company") in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual conditions or results to differ materially from those expressed or implied by such forward-looking statements. Accordingly, you should not place undue reliance on such statements. These factors include, without limitation, the following:

there may be increases in competitive pressure among financial institutions or from non-financial institutions;
the net interest margin is subject to material short-term fluctuation based upon market rates;
changes in deposit flows, loan demand or real estate values may affect the business of Dime Community Bank (the "Bank");
changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition or results of operations;
general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry, may different than the Company currently anticipates;
legislative, regulatory or policy changes may adversely affect the Company's business or results of operations;
technological changes may be more difficult or expensive than the Company anticipates;
success or consummation of new business initiatives or the integration of any acquired entities may be more difficult or expensive than the Company anticipates;
litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and
· other risks, as enumerated in the section entitled "Risk Factors."

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

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PART I

Item 1. Business

General

Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company"), is a Delaware corporation headquartered in the Brooklyn Heights neighborhood of Brooklyn, New York. The Company was organized in 1996 and is registered as a savings and loan holding company with the Board of Governors of the Federal Reserve System pursuant to section 10(l) of the Home Owners' Loan Act, as amended. As of December 31, 2018, the Holding Company's direct subsidiary was Dime Community Bank (the "Bank"), a banking subsidiary that engages in commercial banking and financial services. In 2004, the Company formed Dime Community Capital Trust I as a subsidiary, which issued $72.2 million of 7.0% trust preferred securities. During the year ended December 31, 2017, the Company fully redeemed the outstanding balance of $70.7 million, and dissolved the trust. The Company's common stock ("Common Stock") is traded on the Nasdaq Global Market under the symbol "DCOM."

Dime Community Bank, a New York State-chartered stock savings bank, formerly known as The Dime Savings Bank of Williamsburgh, was founded in 1864. As of December 31, 2018, the Bank operated twenty-nine full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County and Suffolk County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, and, to an increasing extent, commercial and industrial ("C&I") loans and one-to-four family residential real estate loans, as well as mortgage-backed securities, obligations of the U.S. government and government- sponsored enterprises ("GSEs"), and corporate debt and equity securities. The substantial majority of the Bank's lending occurs in the greater NYC metropolitan area. The Bank has four active subsidiaries, including two real estate investment trusts that hold one-to-four family loans and multifamily residential and commercial real estate loans; Dime Insurance Agency, which engages in general insurance agency activities; and Boulevard Funding Corporation, which holds and manages real estate.

The Company's electronic filings with the Securities and Exchange Commission, including copies of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such filings, if any, are available, free of charge, as soon as practicable after they are filed with the Securities and Exchange Commission under the "Investor Relations" section of the Company's website, www.dime.com. Information on this website is not and should not be considered to be a part of this Annual Report on Form 10-K.

Market Area and Competition

The Bank has historically operated as a community-oriented financial institution providing financial services, including various deposit related products, for its retail customer base and broker-sourced loans primarily for multifamily housing within its market areas. In early 2017, the Bank hired two seasoned executives to build out a relationship-banking platform that would provide both deposit products and directly-sourced loan products to business customers in its footprint.

The Bank maintains its headquarters in the borough of Brooklyn, New York, and as of December 31, 2018 operated twenty-nine full-service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County and Suffolk County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches, and via the internet. The Bank's primary lending area is in the greater NYC metropolitan area, although its overall lending area is larger, extending approximately 50 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's loans are secured by properties located in its primary lending area, with approximately 83% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan as of December 31, 2018.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks, and insurance companies and GSEs. The Bank continues to face sustained competition for the origination of multifamily residential and commercial real estate loans, which together comprised 93.4% of the Bank's loan portfolio at December 31, 2018. Competition for C&I and one-to-four family loans also exists as the Bank develops these portfolios.

The Bank gathers deposits in direct competition with other savings banks, commercial banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies with the stock and bond markets, especially during periods of strong performance in those arenas. Over the previous decade, consolidation in the financial services industry, coupled with the emergence of Internet banking, has dramatically altered the deposit gathering landscape. Facing increasingly larger and more efficient competitors, the Bank's strategy to attract depositors has utilized various marketing approaches, relationship-based lending funded by low cost deposits and the delivery of technology-enhanced, and customer-friendly banking services while controlling operating expenses.

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Banking competition occurs within an economic and financial marketplace that is largely beyond the control of any individual financial institution. The interest rates paid to depositors and charged to borrowers, while affected by marketplace competition, are generally a function of various broader-based macroeconomic and financial factors, including the supply of, and demand for, loanable funds. Within this environment, Federal Open Market Committee ("FOMC") monetary policy and governance of short-term rates also significantly influence the interest rates paid and charged by financial institutions.

The Bank's success is additionally impacted by the overall condition of the economy, particularly in the NYC metropolitan area. As home to several national companies in the financial and business services industries, and as a popular destination for domestic and international travelers, the NYC economy is particularly sensitive to the health of both the national and global economies.

Lending Activities

The Bank historically focused on originating non-recourse loans, sourced by brokers, on multifamily and commercial real estate properties to limited liability companies. In early 2017, the Bank hired two seasoned executives to build out a relationship-banking platform that would provide both deposit products and directly-sourced loan products to business customers in its footprint. The Bank's lending is subject to the Bank's lending policies, which are approved by the Board's Lending and Community Reinvestment Act ("CRA") Committee on an annual basis. The types of loans the Bank may originate are subject to New York State ("NYS") laws and regulations (See "Item 1. Business - Regulation – Regulation of New York State Chartered Savings Banks").

The Board of Directors of the Bank establishes lending authority levels for the various loan products offered by the Bank. The Bank maintains a Loan Operating Committee which, as of December 31, 2018, consisted of the President and Chief Executive Officer, Senior Executive Vice President and Chief Operating Officer, Senior Executive Vice President and Chief Banking Officer, Executive Vice President and Chief Risk Officer, Executive Vice President and Chief Lending Officer, Senior Vice President and Senior Lending Officer of Commercial Lending, and Senior Vice President and Chief Credit Officer. The Loan Operating Committee has the authority to approve any portfolio loan origination. All loans approved by the Loan Operating Committee are presented to the Bank's Board of Directors for its review. Loans above $35 million must also be approved by the Executive Committee of the Board.

The Bank originates both adjustable-rate mortgages ("ARMs") and fixed-rate loans, depending upon customer demand and market rates of interest.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Comparison of Financial Condition at December 31, 2018 and December 31, 2017 – Loan Portfolio Composition" for details on the Bank's loan portfolio.

Multifamily Residential and Commercial Real Estate Lending

The majority of the Bank's lending activities consist of originating adjustable- and fixed-rate multifamily residential (generally buildings possessing a minimum of five residential units) and commercial real estate loans. The properties securing these loans are generally located in the Bank's primary lending area.

At December 31, 2018, multifamily residential loans (generally secured by buildings that contain between 5 and 100 apartments) and commercial real estate loans originated by the Bank were secured by three distinct property types: (1) fully residential apartment buildings; (2) "mixed-use" properties featuring a combination of residential and commercial units within the same building; and (3) fully commercial buildings. The underwriting procedures for each of these property types were substantially similar. The Bank classified loans secured by fully residential apartment buildings as multifamily residential loans in all instances. Loans secured by fully commercial real estate were classified as commercial real estate loans in all instances. Loans secured by mixed-use properties were classified as either residential mixed-use (a component of total multifamily residential loans) or commercial mixed-use (a component of total commercial real estate loans) based upon the percentage of the property's rental income received from its residential as compared to its commercial tenants. If 50% or more of the rental income was received from residential tenants, the full balance of the loan was classified as multifamily residential. If less than 50% of the rental income was received from residential tenants, the full balance of the loan was classified as commercial real estate.

Multifamily residential loans in the Bank's portfolio generally range in amount from $0.5 million to $5.0 million. Commercial real estate loans in the Bank's portfolio generally range in amount from $1.0 million to $5.0 million.

The typical multifamily residential and commercial real estate ARM carries a final maturity of 10 or 12 years, and an amortization period not exceeding 30 years. These loans generally have an interest rate that adjusts once after the fifth or seventh year, indexed to the 5-year Federal Home Loan Bank of New York ("FHLBNY") advance rate plus a spread typically approximating 250 basis points, but generally may not adjust below the initial interest rate of the loan. Prepayment fees are assessed throughout the majority of the life of the loans. The Bank may also offer interest only loans, i.e. loans that do not amortize principal during part of the contractual maturity period. The Bank also offers fixed-rate, self-amortizing, multifamily residential and commercial real estate loans with maturities of up to fifteen years.

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Multifamily residential real estate loans are either retained in the Bank’s portfolio, sold in the secondary market to other third-party financial institutions, or may be securitized. The Bank currently has no formal arrangement pursuant to which it sells multifamily residential or commercial real estate loans to the secondary market.

The Bank’s underwriting standards for multifamily residential and commercial real estate loans generally require: (1) a maximum loan-to-value ratio of 75% based upon an appraisal performed by an independent, state licensed appraiser, and (2) sufficient rental income from the underlying property to adequately service the debt, represented by a minimum debt service ratio of 1.20x for multifamily residential and 1.25x for commercial real estate loans. The weighted average loan-to-value and debt service ratios approximated 60% and 1.52x, respectively, on all multifamily residential real estate loans originated during the year ended December 31, 2018, and 46% and 1.97x, respectively, on commercial real estate loans originated during the year ended December 31, 2018. The Bank additionally requires all multifamily residential and commercial real estate borrowers to represent that they are unaware of any environmental risks directly related to the collateral. In instances where the Bank's property inspection procedures indicate a potential environmental risk on a collateral property, the Bank will require a Phase 1 environmental risk analysis to be completed, and will decline loans where any significant residual environmental liability is identified. The Bank further considers the borrower's experience in owning or managing similar properties, the Bank's lending experience with the borrower, and the borrower's credit history and business experience, as well as other criteria.

It is the Bank’s policy to require appropriate insurance protection at closing, including title, hazard, and when applicable, flood insurance, on all real estate loans. Borrowers generally are required to advance funds for certain expenses such as real estate taxes, hazard insurance and flood insurance.

Repayment of multifamily residential loans is dependent, in significant part, on cash flow from the collateral property sufficient to satisfy operating expenses and debt service. Future increases in interest rates, increases in vacancy rates on multifamily residential or commercial buildings, and other economic events which are outside the control of the borrower or the Bank could negatively impact the future net operating income of such properties. Similarly, government regulations, such as the existing NYC Rent Regulation and Rent Stabilization laws, could limit future increases in the revenue from these buildings. As a result, rental income might not rise sufficiently over time to satisfy increases in either the loan rate at repricing or in overhead expenses (e.g., utilities, taxes, and insurance).

Commercial real estate loans are generally viewed as exposing lenders to a greater risk of loss than both one-to-four family and multifamily residential real estate loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans is generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon its rentability, among other commercial factors. This increased risk is partially mitigated in the following manners: (i) the Bank requires, in addition to the security interest in the commercial real estate, a security interest in the personal property associated with the collateral and standby assignments of rents and leases from the borrower; (ii) the Bank will generally favor investments in mixed-use commercial properties that derive some portion of income from residential units, which provide a more reliable source of cash flow and lower vacancy rates, and (iii) the interest rate on commercial real estate loans generally exceeds that on multifamily residential loans.

Included in commercial real estate loans are also certain Small Business Administration (“SBA”) loans in which the loan is secured by underlying real estate as collateral. The Bank may sell a portion of the loan, guaranteed by the SBA, to a third-party investor. The Bank will continue to service the loan after the sale.

As a NYS-chartered stock savings bank originating loans secured by real estate having a market value at least equal to the loan amount at the time of origination, the Bank is generally not subject to the regulations of its primary regulator, the New York State Department of Financial Services (“NYSDFS”) limiting individual loan or borrower exposures.

Commercial and Industrial ("C&I") Loans

The C&I loan portfolio is primarily comprised of lines of credit, revolving lines of credit, and term loans. These loans are originated as part of the Bank's relationship-based lending to borrowers who are either businesses or high net worth individuals. The lines of credit are generally secured by the assets of the business, though they may at times be issued on an unsecured basis. Generally speaking, they are subject to renewal on an annual basis based upon review of the borrower's financial statements. Term loans are generally secured by either specific or general asset liens of the borrower's business. These loans are granted based upon the strength of the cash generation ability of the borrower.

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The Bank may originate adjustable- and fixed-rate C&I loans. C&I loans in the Bank's portfolio vary in size depending on the type of product. As of December 31, 2018, the C&I portfolio primarily consisted of loans to the following industries: finance and insurance; healthcare and social assistance; accommodation and food services; real estate rental and leasing; and generally high net worth individuals. As of December 31, 2018, the largest C&I loan was $18.2 million.

Included in C&I loans are also certain SBA loans in which the loan is secured by underlying assets of the business. The Bank may sell a portion of the loan, guaranteed by the SBA, to a third-party investor. The Bank will continue to service the loan after the sale.

One-to-four family Residential and Condominium / Cooperative Apartment Lending

Prior to February 2013, the Bank generally sold its newly originated one-to-four family fixed-rate residential loans in the secondary market. During the year ended December 31, 2013, the Bank ceased all one-to-four family fixed-rate residential lending in order to focus on its core multifamily residential and commercial real estate lending activities.

During the year ended December 31, 2018, the Bank resumed originations of one-to-four family loan products under a newly hired, experienced Residential Lending team. This initiative is intended to offer more lending products to its borrowers across its branch locations and existing business clientele and to diversify the Bank's lending portfolio. The Bank will continue to sell originations of one-to-four family fixed-rate residential loans in the secondary market, and retain non-conforming and adjustable rate loans on its balance sheet. The Bank outsources the servicing of a portion of its one-to-four family loan portfolio, including one-to-four family loans serviced for other investors, to an unrelated third party under a sub-servicing agreement.

Home Equity and Home Improvement Loans

During the year ended December 31, 2013, the Bank ceased origination of home equity and home improvement loans. The Bank may offer home equity and home improvement loan products under the Residential Lending team during 2019. In the existing portfolio, home equity loans and home improvement loans, the majority of which are included in one-to-four family loans, were originated to a maximum of $500,000. The combined balance of the first mortgage and home equity or home improvement loan was not permitted to exceed 75% of the appraised value of the collateral property at the time of origination of the home equity or home improvement loan. At the time of origination, interest rates offered on home equity and home improvement loans was initially at the prime interest rate, and after six months, the interest rate adjusts and ranges from the prime interest rate to 100 basis points above the prime interest rate in effect at the time. The interest rate on the loan can never fall below the rate at origination.

Equity Lines of Credit on Multifamily Residential and Commercial Real Estate Loans

Equity lines of credit are available on multifamily residential and commercial real estate loans. These loans are underwritten in the same manner as first mortgage loans on these properties, except that the combined first mortgage amount and equity line are used to determine the loan-to-value ratio and minimum debt service coverage ratio. The interest rate on multifamily residential and commercial real estate equity lines of credit adjusts regularly.

Acquisition, land development and construction ("ADC") loans

ADC loans help finance the purchase of land intended for further development, including single-family homes, multi-family housing, and commercial income properties. In general, the maximum loan-to-value ratio for a land acquisition loan is 50% of the appraised value of the property. The maximum loan amount is generally limited to the cost of the improvements, plus limited approval of soft costs (i.e. architect and engineering fees), subject to an overall loan-to-value limitation.

Consumer Loans

Consumer loans in the Bank's portfolio consist of depositor loans and other consumer installment products. The balances of these loans are generally small dollar balances.

Asset Quality

General

The Bank does not originate or purchase loans, either whole loans or loans underlying mortgage-backed securities ("MBS"), which would have been considered subprime loans at origination, i.e., real estate loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 6 to the Company's Consolidated Financial Statements for a discussion of evaluation for impaired investment securities and MBS.

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Monitoring and Collection of Delinquent Loans

Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors at each regularly scheduled Board meeting regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential, commercial real estate loans, and C&I loans, or fifteen days late in connection with one-to-four family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date, or 32 days for one-to-four family loans serviced by the subservicer. Thereafter, periodic letters are mailed and phone calls placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Accrual of interest is generally discontinued on a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is both deemed to be well secured and in the process of collection); or (iii) an election has otherwise been made to maintain the loan on a cash basis due to deterioration in the financial condition of the borrower. Such non-accrual determination practices are applied consistently to all loans regardless of their internal classification or designation. Upon entering non-accrual status, the Bank reverses all outstanding accrued interest receivable.

The Bank generally initiates foreclosure proceedings on real estate loans when a loan enters non-accrual status based upon non-payment, and typically does not accept partial payments once foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to Other Real Estate Owned ("OREO") status. The Bank generally attempts to utilize all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans and OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

The C&I portfolio is actively managed by the Bank's lenders and underwriters. All credit facilities at a minimum require an annual review of the exposure and typically terms of the loan require annual and interim financial reporting and have financial covenants to indicate expected performance levels. Guarantors are also required to, at a minimum, annually update their financial reporting. All exposures are risk rated and those entering adverse ratings due to financial performance concerns of the borrower or material delinquency of any payments or financial reporting are subjected to added management scrutiny. Measures taken typically include amendments to the amount of the available credit facility, requirements for increased collateral, a request for a capital infusion, additional guarantor support or a material enhancement to the frequency and quality of financial reporting. Loans determined to reach adverse risk rating standards are subject to quarterly updating to Credit Administration and executive management. When warranted, loans reaching a Substandard rating could be reassigned to Credit Administration for direct handling.

Troubled Debt Restructured Loans ("TDRs")

Under ASC 310-40-15, the measurement, de-recognition, disclosure, and implementation guidance issues concerning troubled debt restructurings focused on the creditor's records, the Bank is required to recognize loans for which certain modifications or concessions have been made as TDRs. A TDR has been created in the event that, for economic or legal reasons, a concession has been granted that would not have otherwise been considered to a debtor experiencing financial difficulties. The following criteria are considered concessions:

1. A reduction of interest rate has been made for the remaining term of the loan;
2. The maturity date of the loan has been extended with a stated interest rate lower than the current market rate for new debt with similar risk; or
3. The outstanding principal amount and/or accrued interest have been reduced.

In instances in which the interest rate has been reduced, management would not deem the modification a TDR in the event that the reduction in interest rate reflected either a general decline in market interest rates or an effort to maintain a relationship with a borrower who could readily obtain funds from other sources at the current market interest rate, and the terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors.

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Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined in the previous section titled "Monitoring and Collection of Delinquent Loans." At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing); it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy and agency regulations.

The Bank never accepts receivables or equity interests in satisfaction of TDRs.

For TDRs that demonstrate conditions sufficient to warrant accrual status, the present value of the expected net cash flows of the underlying property is utilized as the primary means of determining impairment. Any shortfall in the present value of the expected net cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected net cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

Allowance for Loan Losses

U.S. generally accepted accounting principles ("GAAP") require the Bank to maintain an appropriate allowance for loan losses. The Bank maintains a Loan Loss Reserve Committee consisting of the Senior Executive Vice President and Chief Operating Officer, Executive Vice President and Chief Risk Officer, Senior Vice President and Controller, Senior Vice President and Chief Accounting Officer, Senior Vice President and Chief Credit Officer, First Vice President - Loan Servicing, and Director of Credit Administration, charged with, among other functions, responsibility for monitoring the appropriateness of the loan loss reserve.

To assist the Loan Loss Reserve Committee in carrying out its assigned duties, the Bank engages the services of an independent, experienced third-party loan review firm to perform a review of the loan portfolio. The 2018 review program covered 50% of the non-one-to-four family and consumer loan portfolio, 100% of ADC loans, 100% of SBA loans, 100% of C&I loans greater than $0.25 million, and 100% of owner-occupied non-farm non-residential loans. Included within the annual 50% target of the non-one-to-four family and consumer loan portfolio were:

(1) twenty largest loan relationships;
(2) twenty largest loans;
(3) ten largest multifamily residential real estate loans;
(4) ten largest multifamily mixed-use real estate loans;
(5) ten largest pure commercial real estate loan portfolio;
(6) ten largest commercial mixed-use real estate loans;
(7) 50% of loans over $500,000 that were collateralized by properties located in New Jersey;
(8) all loans over $500,000 that were scheduled to reprice during the year;
(9) 30% of all new loan originations during the year;
(10) 70% of all commercial real estate loans;
(11) internally criticized and classified loans over $250,000 plus additionally identified loans; and
(12) all commercial loans over $1.5 million that were in the lowest three categories of pass loan grade (including Watch list loans).

The Loan Loss Reserve Committee's findings, along with recommendations for changes to loan loss reserve provisions, if any, are reported directly to certain members of the Bank's executive management and the Board of Directors.

The Loan Loss Reserve Committee evaluates the loan portfolio on a quarterly basis in order to maintain its allowance for loan losses at a level it believes appropriate to absorb probable losses incurred within the Bank's loan portfolio as of the balance sheet dates. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect a borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Bank's lending area. Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the Bank's regulators, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses, and may require the Bank to recognize additions to, or reductions in, the allowance based upon judgments different from those of management.

The Bank's periodic evaluation of its allowance for loan losses is comprised of different components, each of which is discussed in Note 8 to the Company's Consolidated Financial Statements.

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The Bank also maintains a reserve associated with unfunded loan commitments accepted by the borrower. This reserve is determined based upon the outstanding volume of loan commitments at each period end. Any increases or reductions in this reserve are recognized in periodic non-interest expense.

Investment Activities

Investment strategies are implemented by the Asset and Liability Committee ("ALCO"), which is comprised of the President and Chief Executive Officer, Senior Executive Vice President and Chief Operating Officer, Senior Executive Vice President and Chief Banking Officer, Executive Vice President and Chief Risk Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Retail Officer, and other senior officers. The strategies take into account the overall composition of the Bank's balance sheet, including loans and deposits, and are intended to protect and enhance the Bank's earnings and market value, and effectively manage both interest rate risk and liquidity. The strategies are reviewed periodically by the ALCO and reported to the Board of Directors.

Investment Policy of the Bank

The investment policy of the Bank, which is approved by its Board of Directors, is designed to help achieve the Bank's overall asset/liability management objectives while complying with applicable regulations. Generally, when selecting investments for the Bank's portfolio, the policy emphasizes principal preservation, liquidity, diversification, short maturities and/or repricing terms, and a favorable return on investment. The policy permits investments in various types of liquid assets, including obligations of the U.S. Treasury and federal agencies, various types of MBS, municipal securities, corporate debt securities, commercial paper, certificates of deposit ("CDs") and when applicable, overnight federal funds sold to financial institutions. The Bank's Board of Directors periodically approves all financial institutions to which the Bank may sell federal funds.

The Bank's investment policy allows for new investments in corporate debt to companies rated "investment grade" according to the investment policy at the time of purchase, and limits investments in any one corporate entity to the lesser of 2% of total assets or 20% of the Bank's total capital. The investment policy limits a combined investment in securities issued by any one entity, with the exception of obligations of the U.S. Government, federal agencies and GSEs, to an amount not exceeding: 1% of total assets and 5% of the Bank's total capital for municipal securities with a single "A" rating, 2% of total assets and 10% of total capital for municipal securities with a triple "A" rating, 1% of total assets and 15% of the Bank's total capital for MBS and CMO securities with single "A" ratings, and 2% of total assets and 20% of total capital for MBS and CMO securities with triple "A" ratings. The Bank was in compliance with this policy limit at both December 31, 2018 and 2017. The Bank may engage in hedging transactions utilizing derivative instruments with Board approval. During the years ended December 31, 2018 and 2017, the Bank did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Federal Agency Obligations and Corporate Securities

Federal agency obligations and corporate securities are purchased from time to time in order to provide the Bank a favorable yield in comparison to overnight investments. Federal Agency Obligations possess sound credit ratings, and are readily accepted as collateral for the Bank's borrowings. The Bank reviews the financials of the issuer of corporate note securities to assess the financial health and quality, as defined by the Bank's investment policy, of the issuer at the time of purchase, and on annual basis.

MBS

The Bank's investment policy calls for the purchase of only priority tranches when investing in MBS, and typically possess the highest credit rating from at least one nationally recognized rating agency. MBS provide the portfolio with investments offering desirable repricing, cash flow and credit quality characteristics. MBS yield less than the loans that underlie the securities as a result of the cost of payment guarantees and credit enhancements which reduce credit risk to the investor. Although MBS guaranteed by federally sponsored agencies carry a reduced credit risk compared to whole loans, such securities remain subject to the risk that fluctuating interest rates, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such loans and thus affect the value of such securities. MBS, however, are more liquid than individual real estate loans and may readily be used to collateralize borrowings. MBS also provide the Company with important interest rate risk management features, as the entire portfolio provides monthly cash flow for re-investment at current market interest rates.

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Investment Strategies of the Holding Company

The Holding Company's investment policy generally calls for investments in relatively short-term, liquid securities similar to those permitted by the securities investment policy of the Bank. The investment policy allows for new investments in corporate debt to companies rated "investment grade" according to the investment policy at the time of purchase, and limits investments in any one corporate entity to the lesser of 2% of total assets or 20% of the Company's total capital. The investment policy limits a combined investment in securities issued by any one entity, with the exception of obligations of the U.S. Government, federal agencies and GSEs, to an amount not exceeding: 1% of total assets and 5% of the Company's total capital for municipal securities with a single "A" rating, 2% of total assets and 10% of total capital for municipal securities with a triple "A" rating, 1% of total assets and 15% of the Company's total capital for MBS and CMO securities with single "A" ratings, and 2% of total assets and 20% of total capital for MBS and CMO securities with Triple "A" ratings. The Holding Company may, with Board approval, engage in hedging transactions utilizing derivative instruments. During the years ended December 31, 2018 and 2017, the Holding Company did not hold any derivative instruments or embedded derivative instruments that required bifurcation.

Holding Company investments are generally intended primarily to provide future liquidity which may be utilized for general business activities, including, but not limited to: (1) purchases of Common Stock into treasury; (2) repayment of principal and interest on the Holding Company's subordinated notes payable; (3) subject to applicable restrictions, the payment of dividends on the Common Stock; and/or (4) investments in the equity securities of other financial institutions and other investments not permitted to the Bank.

The Holding Company cannot assure that it will engage in these investment activities in the future. At December 31, 2018, the Holding Company's principal asset was its $689.5 million investment in the Bank's common stock. This investment in its subsidiary is not actively managed and falls outside of the Holding Company investment policy and strategy discussed above.

GAAP requires that investments in debt securities be classified in one of the following three categories and accounted for accordingly: trading securities, securities available-for-sale or securities held-to-maturity. Unrealized gains and losses on available-for-sale securities are reported as a separate component of stockholders' equity referred to as accumulated other comprehensive loss, net of deferred taxes. GAAP requires investments in equity securities that have readily determinable fair values be classified as marketable equity securities, with changes in fair value recognized through the Company's consolidated results of operations.

Sources of Funds

General

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security principal and interest payments, and advances from the FHLBNY. The Bank may also sell or securitize selected multifamily residential, mixed-use and one-to-four family residential real estate loans to private sector secondary market purchasers and has in the past sold such loans to the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), and the State of New York Mortgage Agency ("SONYMA"). The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on real estate loans and MBS are influenced by interest rates, economic conditions and competition.

Deposits

The Bank offers a variety of deposit accounts possessing a range of interest rates and terms, including savings, money market, interest bearing and non-interest bearing checking accounts, and CDs. The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition from other financial institutions and investment products. The Bank relies upon direct and general marketing, customer service, convenience and long-standing relationships with customers or borrowers to generate deposits. The communities in which the Bank maintains branch offices have historically provided the great majority of its deposits.

The Bank also participates in various brokered deposits programs to obtain brokered deposits, such as Certificate of Deposit Account Registry Service (“CDARS”), through which it can either purchase or sell CDs, and Insured Cash Sweep (“ICS”), through which it can either purchase or sell money market accounts. Purchases of brokered deposits are limited by Bank policy to an aggregate of 6.5% of total assets.

Borrowings

In June 2017, the Company issued $115.0 million of fixed-to-floating rate subordinated notes due June 2027, which will become callable commencing in June 2022. Interest will be paid semi-annually in arrears on each June 15 and December 15 at a fixed annual interest rate equal to 4.50%, until June 2022, at which point the interest rate will reset quarterly to an annual interest rate equal to the then current three-month LIBOR plus 266 basis points. The notes will mature on June 15, 2027. The Company used part of the net proceeds from the offering to redeem its $70.7 million of trust preferred securities, which had a 7.00% annual coupon in July 2017.

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The Bank has been a member and shareholder of the FHLBNY since 1980. One of the privileges offered to FHLBNY shareholders is the ability to secure advances from the FHLBNY under various lending programs at competitive interest rates.

In December 2018, the Bank became a member of the American Financial Exchange, through which it may either borrow or lend funds on an overnight or short-term basis with other member institutions. The availability of funds changes daily.

Subsidiary Activities

In addition to the Bank, the Holding Company's indirect subsidiaries consist of seven corporations, which are wholly-owned by the Bank. The following table presents an overview of the Holding Company's indirect subsidiaries, other than the Bank, as of December 31, 2018:

Direct Subsidiaries of the Bank	Year / State of Incorporation	Primary Business Activities
Boulevard Funding Corp.	1981 / New York	Management and ownership of real estate
Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.)	1997 / New York	Sale of non-FDIC insured investment products
DSBW Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in multifamily residential and commercial real estate loans
DSBW Residential Preferred Funding Corp.	1998 / Delaware	Real Estate Investment Trust investing in one- to- four family real estate loans
Dime Reinvestment Corporation	2004 / Delaware	Community Development Entity. Currently inactive.
195 Havemeyer Corp.	2008 / New York	Management and ownership of real estate. Currently inactive.
DSB Holdings NY, LLC	2015 / New York	Management and ownership of real estate. Currently inactive.

Personnel

As of December 31, 2018, the Company had 403 full-time and 40 part-time employees. The employees are not represented by a collective bargaining unit, and the Holding Company and all of its subsidiaries consider their relationships with their employees to be good.

Federal, State and Local Taxation

The following is a general description of material tax matters and does not purport to be a comprehensive review of the tax rules applicable to the Company.

Federal Taxation

For federal income tax purposes, the Company files a consolidated income tax return on a December 31st calendar year basis using the accrual method of accounting and is subject to federal income taxation in the same manner as other corporations with some exceptions, including, particularly, the Bank's tax reserve for bad debts.

The Bank, as a "large bank" under Internal Revenue Service classifications (i.e., one with assets having an adjusted basis in excess of $500 million), is: (i) unable to make additions to its tax bad debt reserve, (ii) permitted to deduct bad debts only as they occur, and (iii) required to recapture (i.e., take into taxable income) the balance of its “base year tax bad debt reserve” (i.e., its tax bad debt reserve as of December 31, 1987) under certain distribution scenarios discussed below. The Bank’s accumulated bad debt reserves totaled $15.2 million, for which no provision for income tax was required to be recorded for the tax liability that would result upon the recapture of the base year tax bad debt reserve. The amount of tax liability that would result from a full recapture of the base year tax bad debt reserve is $5.0 million, as additional income tax expense. These bad debt reserves could be subject to recapture into taxable income under certain circumstances, including a distribution of the bad debt benefits to the Holding Company or the failure of the Bank to qualify as a bank for federal income tax purposes. The Bank does not anticipate making any distributions that would result in a full or partial recapture of the base year tax bad debt reserve.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and business. For businesses, the Tax Act reduces the corporate federal tax rate from a maximum rate of 35% to a flat rate of 21%. The rate reduction took effect January 1, 2018.

Under GAAP, the Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. As of a result of the reduction in the corporate income tax rate from 35% to 21% pursuant to the Tax Act, the Company recorded tax expense of $3.1 million during the year ended December 31, 2017.

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State and Local Taxation

The Company is subject to NYS franchise tax on a consolidated basis. NYS enacted several reforms in 2014 (the "Tax Reform Package") to its tax structure, including changes to the franchise, sales, estate and personal income taxes. These changes generally became effective for tax years beginning on or after January 1, 2015. The Tax Reform Package is intended to simplify the existing corporate tax code for NYS businesses while remaining relatively neutral in relation to corporate tax receipts.

The Company is subject to NYC franchise tax on a consolidated basis. NYC generally conforms its tax law to NYS tax law, and adopted conforming Tax Reform Package provisions similar to those described above for NYS purposes, with only a few minor differences. For tax years beginning on or after January 1, 2015, the NYC income tax rate applied to the Company apportioned NYC taxable income is 8.85%.

State of Delaware

As a Delaware holding company not conducting business in Delaware, the Holding Company is exempt from Delaware corporate income tax. However, it is required to file an annual report and pay an annual franchise tax to the State of Delaware based upon the assumed par value capital method.

Regulation

General

The Bank is a NYS-chartered stock savings bank. The Bank's primary regulator is the NYSDFS, and the Bank's primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"), which regulates and examines state-chartered banks that are not members of the Federal Reserve System ("State Nonmember Banks"). The FDIC also administers laws and regulations applicable to all FDIC-insured depository institutions. The Holding Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System ("FRB") and, more specifically, the Federal Reserve Bank of Philadelphia. The Bank has elected to be treated as a "savings association" under Section 10(l) of the Home Owners' Loan Act, as amended ("HOLA"), for purposes of the regulation of the Holding Company. The Holding Company is therefore regulated as a savings and loan holding company by the FRB as long as the Bank continues to satisfy the requirements to remain a "qualified thrift lender" ("QTL") under HOLA. If the Bank fails to remain a QTL, the Holding Company must register with the FRB, and be treated as, a bank holding company. The Holding Company does not expect that regulation as a bank holding company rather than a savings and loan holding company would be a significant change.

The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund ("DIF"). The Bank is required to file reports with both the NYSDFS and the FDIC concerning its activities and financial condition, and to obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. Both the NYSDFS and the FDIC conduct periodic examinations to assess the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a state-chartered savings bank may engage and is intended primarily for the protection of the DIF and depositors and generally is not intended for the protection of shareholders, investors or creditors other than insured depositors. As a publicly-held unitary savings bank holding company, the Holding Company is also required to file certain reports with, and otherwise comply with the rules and regulations of, both the SEC, under the federal securities laws, and the Federal Reserve Bank of Philadelphia.

The NYSDFS and the FDIC possess significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the NYSDFS, the

FDIC or through legislation, could have a material adverse impact on the operations of either the Bank or Holding Company.

The following discussion is intended to be a summary of the material statutes and regulations applicable to NYS chartered savings banks and savings and loan holding companies. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations discussed.

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Regulation of New York State Chartered Savings Banks

Business Activities. The Bank derives its lending, investment, and other authority primarily from the New York Banking Law ("NYBL") and the regulations of the NYSDFS, subject to limitations under applicable FDIC laws and regulations. Pursuant to the NYBL, the Bank may invest in real estate loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities (including certain corporate debt securities and obligations of federal, state, and local governments and agencies), and certain other assets. The lending powers of NYS-chartered savings banks and commercial banks are not generally subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers. The Bank may also establish service corporations that may engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities.

Recent Financial Regulatory Reforms

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"), which became law in 2010, was intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. Many of the provisions of the Reform Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Implementation is ongoing and the Reform Act has, at a minimum, resulted in increased regulatory burden, compliance costs and other costs for the Bank and Holding Company.

Basel III Capital Rules

On January 1, 2015, the Bank and the Holding Company became subject to a new comprehensive capital framework for U.S. banking organizations that was issued by the FDIC and FRB in July 2013 (the "Basel III Capital Rules"), subject to phase-in periods for certain components and other provisions.

The Basel III Capital Rules provide for the following minimum capital to risk-weighted assets ratios as of January 1, 2015: a) 4.5% based upon common equity tier 1 capital ("CET1"); b) 6.0% based upon tier 1 capital; and c) 8.0% based upon total regulatory capital. A minimum leverage ratio (tier 1 capital as a percentage of average consolidated assets) of 4.0% is also required under the Basel III Capital Rules. The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer, composed entirely of CET1, of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers. Restrictions would begin phasing in where the banking organization's capital conservation buffer was below 2.5% at the beginning of a quarter, and distributions and discretionary bonus payments would be completely prohibited if no capital conservation buffer exists. As of January 1, 2019, the capital conservation buffer was fully phased in, and the Holding Company and the Bank are subject to the following minimum capital to risk-weighted assets ratios: a) 7.0% based upon CET1; b) 8.5% based upon tier 1 capital; and c) 10.5% based upon total regulatory capital.

The Basel III Capital Rules provide for a number of deductions from, and adjustments to, CET1. These include, for example, the requirement that servicing right assets ("SRA"), deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

Implementation of the deductions from, and other adjustments to, CET1 began on January 1, 2015 and were phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and increased by 0.625% each subsequent January 1, until reaching 2.5% on January 1, 2019. The Basel III Capital Rules also revised the definitions and components of regulatory capital, and addressed other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios.

With respect to the Bank, the Basel III Capital Rules revise the "prompt corrective action" ("PCA") regulations adopted pursuant to the Federal Deposit Insurance Act ("FDIA") by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the previous 6.0%); and (iii) eliminating the provision that a bank with a composite supervisory rating of 1 may have a 3.0% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any PCA category.

The Basel III Capital Rules increased the required capital levels of the Bank and subjected the Holding Company to consolidated capital rules. The Bank and Company made the one-time, permanent election to continue to exclude the effects of accumulated other comprehensive income or loss items included in stockholders' equity for the purposes of determining the regulatory capital ratios. See Note 24 to the consolidated financial statements for a discussion of regulatory matters.

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FDIC Guidance on Managing Market Risk

In October 2013, the FDIC published guidance entitled “Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment”. This guidance notes the FDIC’s ongoing supervisory concern that certain institutions may be insufficiently prepared or positioned for sustained increases in, or volatility of, interest rates. The guidance emphasizes a series of best practices to ensure that State Nonmember Banks, such as the Bank, have adopted a comprehensive asset-liability and interest rate risk management process. These practices include: (i) effective board governance and oversight; (ii) a sound policy framework and prudent exposure limits; (iii) well-developed risk measurement tools for effective measurement and monitoring of interest rate risk and; (iv) effective risk mitigation strategies. The Bank continues to comply with this guidance.

FDIC Real Estate Lending Standards

FDIC regulations prescribe standards for extensions of credit that (i) are secured by liens on or interests in real estate, or (ii) are made for the purpose of financing construction or improvements on real estate. FDIC regulations require nonmember banks to establish and maintain written real estate lending policies that are consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The policies must also be consistent with accompanying interagency guidelines, which include loan-to-value limitations for different types of real estate loans. Under certain circumstances, institutions are also permitted to make a limited amount of loans that do not conform to the loan-to-value limitations. In addition, the federal banking agencies (the “Agencies”) consider as part of their ongoing supervisory monitoring processes whether an institution is exposed to significant commercial real estate concentration risk. Institutions that (i) have experienced rapid growth in their commercial real estate lending, (ii) have notable exposure to a specific type of commercial real estate or (iii) are approaching or have exceeded the following concentration thresholds may become subject to additional regulatory review: (a) total reported loans for construction, land development, and other land represent 100% or more of the institution’s total capital; or (b) total commercial real estate loans, excluding owner occupied properties, represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Limitations on Individual Loans and Aggregate Loans to One Borrower

As a NYS-chartered savings bank originating loans secured by real estate having a market value at least equal to the loan amount at the time of origination, the Bank is generally not constrained by NYSDFS regulations limiting individual loan or borrower exposures.

QTL Test

In order for the Holding Company to be regulated by the FRB as a savings and loan holding company rather than a bank holding company, the Bank must remain a QTL. To satisfy this requirement, the Bank must maintain at least 65% of its ‘'portfolio assets" in certain "qualified thrift investments" during at least nine of the most recent twelve months. "Portfolio assets" mean, in general, the Bank's total assets less the sum of: (i) specified liquid assets up to 20% of total assets, (ii) certain intangibles, including goodwill, credit card relationships and purchased SRA, and (iii) the value of property used to conduct the Bank's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes; investments related to such purposes, including certain mortgage-backed and related securities; and small business, education, and credit card loans. At December 31, 2018, the Bank maintained 77.8% of its portfolio assets in qualified thrift investments. The Bank also satisfied the QTL test in each month during 2018, and, therefore, was a QTL.

A savings association that fails the QTL test will generally be prohibited from (i) engaging in any new activity not permissible for a national bank, (ii) paying dividends, unless the payment would be permissible for a national bank, is necessary to meet obligations of a company that controls the savings bank, and is specifically approved by the FDIC and the FRB, and (iii) establishing any new branch office in a location not permissible for a national bank in the association's home state. A savings association that fails to satisfy the QTL test may be subject to FDIC enforcement action. In addition, within one year of the date a savings association ceases to satisfy the QTL test, any company controlling the association must register under, and become subject to the requirements of, the Bank Holding Company Act of 1956, as amended ("BHCA"). A savings association that has failed the QTL test may requalify under the QTL test and be relieved of the limitations; however, it may do so only once. If the savings association does not requalify under the QTL test within three years after failing the QTL test, it will be required to terminate any activity, and dispose of any investment, not permissible for a national bank. These provisions remain in effect under the Reform Act.

Advisory on Interest Rate Risk Management

In January 2010, the Agencies released an Advisory on Interest Rate Risk (“IRR”) Management (the "IRR Advisory") to remind institutions of the supervisory expectations regarding sound practices for managing IRR. While some degree of IRR is inherent in the business of banking, the Agencies expect institutions to have sound risk management practices in place to measure, monitor and control IRR exposures, and IRR management should be an integral component of an institution’s risk management infrastructure. The Agencies expect all institutions to manage their IRR exposures using processes and systems commensurate with their earnings and capital levels, complexity, business model, risk profile and scope of operations. The IRR Advisory further reiterates the importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the IRR exposures of institutions.

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The IRR Advisory encourages institutions to use a variety of techniques to measure IRR exposure, which include simple maturity gap analysis, income measurement and valuation measurement for assessing the impact of changes in market rates as well as simulation modeling to measure IRR exposure. Institutions are encouraged to use the full complement of analytical capabilities of their IRR simulation models. The IRR Advisory also reminds institutions that stress testing, which includes both scenario and sensitivity analysis, is an integral component of IRR management. The IRR Advisory indicates that institutions should regularly assess IRR exposures beyond typical industry conventions, including changes in rates of greater magnitude (e.g., up and down 300 and 400 basis points as compared to the generally used up and down 200 basis points) across different tenors to reflect changing slopes and twists of the yield curve.

The IRR Advisory emphasizes that effective IRR management not only involves the identification and measurement of IRR, but also provides for appropriate actions to control the risk. The adequacy and effectiveness of an institution's IRR management process and the level of its IRR exposure are critical factors in the Agencies' evaluation of an institution's sensitivity to changes in interest rates and capital adequacy.

Limitation on Capital Distributions

The NYBL and the New York banking regulations, as well as FDIC and FRB regulations impose limitations upon capital distributions by state-chartered savings banks, such as cash dividends, payments to purchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital.

Under the NYBL and the New York banking regulations, NYS-chartered stock savings banks may declare and pay dividends out of net profits, unless there is an impairment of capital, however, approval of the New York State Superintendent of Financial Services ("Superintendent") is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

As the subsidiary of a savings and loan holding company, the Bank is required to file a notice with the FRB at least 30 days prior to each capital distribution. The FRB can prohibit a proposed capital distribution if it determines that the bank would be "undercapitalized", as defined in the FDIA, following the distribution or that a proposed distribution would constitute an unsafe or unsound practice. Further, under FDIC PCA regulations, the Bank would be prohibited from making a capital distribution if, after the distribution, the Bank would fail to satisfy its minimum capital requirements, as described above (See "Part I - Item 1. Business - Regulation - Regulation of New York State Chartered Savings Banks – PCA").

Liquidity

Pursuant to FDIC regulations, the Bank is required to maintain sufficient liquidity to ensure its safe and sound operation.

Assessments

NYS-chartered savings banks are required by the NYBL to pay annual assessments to the NYSDFS in connection with its regulation and supervision (including examination) of the Bank. This annual assessment is based primarily on the asset size of the Bank, among other factors determined by the NYSDFS. The Bank is not required to pay additional assessments to the FDIC for its regulation and supervision (including examination) of the Bank as a State Nonmember Bank, however, the Bank is required to pay assessments to the FDIC as an insured depository institution. (See "Insurance of Deposit Accounts").

Branching

Subject to certain limitations, NYS and federal law permit NYS-chartered savings banks to establish branches in any state of the United States. In general, federal law allows the FDIC, and the NYBL allows the Superintendent, to approve an application by a state banking institution to acquire interstate branches by merger. The NYBL authorizes NYS-chartered savings banks to open and occupy de novo branches outside the State of New York. Pursuant to the Reform Act, the FDIC is authorized to approve the establishment by a state bank of a de novo interstate branch if the intended host state allows de novo branching within that state by banks chartered by that state.

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Community Reinvestment

Under the CRA, as implemented by FDIC regulations, an insured depository institution possesses a continuing and affirmative obligation, consistent with its safe and sound operation, to help satisfy the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services it believes are most appropriate to its particular community. The CRA requires the FDIC, in connection with its examination of a State Nonmember Bank, to assess the bank's record of satisfying the credit needs of its community and consider such record in its evaluation of certain applications by the bank. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "Satisfactory" CRA rating in its most recent examination. Regulations additionally require that the Bank publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements.

The Bank is also subject to provisions of the NYBL that impose continuing and affirmative obligations upon a NYS-chartered savings bank to serve the credit needs of its local community (the "NYCRA"). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYSDFS to make a periodic written assessment of an institution’s compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The Bank’s most recent rating under the NYCRA was “Satisfactory”.

Transactions with Related Parties

The Bank's authority to engage in transactions with its "affiliates" is limited by FDIC regulations, Sections 23A and 23B of the Federal Reserve Act ("FRA"), and Regulation W issued by the FRB. FDIC regulations regarding transactions with affiliates generally conform to Regulation W. These provisions, among other matters, prohibit, limit or place restrictions upon a depository institution extending credit to, purchasing assets from, or entering into certain transactions (including securities lending, repurchase agreements and derivatives activities) with, its affiliates, which, for the Bank, would include the Holding Company and any other subsidiary of the Holding Company.

As a “savings association” under Section 10(l) of the HOLA, the Bank is additionally subject to the rules governing transactions with affiliates for savings associations under HOLA Section 11. These rules prohibit, subject to certain exemptions, a savings association from: (i) advancing a loan to an affiliate engaged in activities that are not permitted for non-bank holding companies; and (ii) purchasing or investing in securities issued by an affiliate that is not a subsidiary.

The Bank's authority to extend credit to its directors, executive officers, and stockholders owning 10% or more of the outstanding Common Stock, as well as to entities controlled by such persons, is additionally governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB enacted thereunder. Among other matters, these provisions require that extensions of credit to insiders: (i) be made on terms substantially the same as, and follow credit underwriting procedures not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and (ii) not exceed certain amount limitations individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. Regulation O additionally requires that extensions of credit in excess of certain limits be approved in advance by the bank's board of directors.

New York banking regulations impose certain limits and requirements on various transactions with "insiders," as defined in the New York banking regulations to include certain executive officers, directors and principal stockholders.

Historically, the Bank prohibited loans to its directors and executive officers. In April 2018, the Bank approved a policy permitting loans to directors and executive officers secured by their primary residences substantially on the same terms and conditions the Bank extends credit to its borrowers. The Holding Company presently prohibits loans to directors and executive officers.

Enforcement

Under the NYBL, the Superintendent possesses enforcement power over NYS-chartered savings banks. The NYBL gives the Superintendent authority to order a NYS-chartered savings bank to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to maintain prescribed books and accounts. Upon a finding by the Superintendent that a director, trustee or officer of a savings bank has violated any law, or has continued unauthorized or unsafe practices in conducting its business after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or receiver, such as the FDIC, for a savings bank under certain circumstances.

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Under the FDIA, the FDIC possesses enforcement authority for FDIC insured depository institutions and has the authority to bring enforcement action, including civil monetary penalties, against all "institution-affiliated parties," including any controlling stockholder or any shareholder, attorney, appraiser or accountant who knowingly or recklessly participates in any violation of applicable law or regulation, breach of fiduciary duty or certain other wrongful actions that cause, or are likely to cause, more than minimal loss to or other significant adverse effect on an insured depository institution. Under HOLA and the FDIA, the FRB possesses similar authority to bring enforcement actions and impose civil monetary penalties against savings and loan holding companies for violations of applicable law or regulation. In addition, regulators possess substantial discretion to take enforcement action against an institution that fails to comply with the law, particularly with respect to capital requirements. Possible enforcement actions range from informal enforcement actions, such as a memorandum of understanding, to formal enforcement actions, such as a written agreement, cease and desist order or civil money penalty, the imposition of a capital plan and capital directive to receivership, conservatorship, or the termination of deposit insurance.

Standards for Safety and Soundness

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the FDIC, together with the other federal bank regulatory agencies, has adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other features, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the FDIC has adopted regulations pursuant to FDICIA that authorize, but do not require, the FDIC to order an institution that has been given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so ordered, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized bank is subject under the PCA provisions of FDICIA (See "Part I - Item 1. Business - Regulation - Regulation of New York State Chartered Savings Banks – PCA"). If an institution fails to comply with such an order, the FDIC may seek enforcement in judicial proceedings and the imposition of civil money penalties.

Insurance of Deposit Accounts

The standard maximum amount of FDIC deposit insurance is $250,000 per depositor. Insured depository institutions are required to pay quarterly deposit insurance assessments to the DIF. Assessments are based on average total assets minus average tangible equity. The assessment rate is determined through a risk-based system, with institutions deemed most risky paying higher assessments. For depository institutions with less than $10 billion in assets, such as the Bank, the assessments are now primarily based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution’s failure within three years. The initial base assessment rate currently ranges from 3 to 30 basis points on an annualized basis. After the effect of potential base-rate adjustments, the total base assessment rate could range from 1.5 to 40 basis points on an annualized basis.

As a result of the failures of a number of banks and thrifts in previous years, there has been a significant increase in the loss provisions of the DIF. This resulted in a decline in the DIF reserve ratio during 2008 below the then minimum designated reserve ratio of 1.15%. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Reform Act. In March 2016, the FDIC adopted a final rule increasing the reserve ratio for the DIF to 1.35% of total insured deposits. The rule imposed a surcharge on the assessments of depository institutions with $10 billion or more in assets beginning the third quarter of 2016 and continuing through the earlier of the quarter that the reserve ratio first reached or exceeded 1.35% and December 31, 2018. As a depository institution with less than $10 billion in assets, this rule did not apply to the Bank. The FDIC indicated in November 2018 that the 1.35% DIF ratio has been exceeded and that institutions of less than $10 billion of assets would receive credits for the portion of their assessments that contributed to raising the reserve ratios from 1.15% to 1.35%, beginning when the reserve ratio reaches 1.38%. The FDIC has established a long-term target for the reserve ratio of 2.0%. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (“FICO”) to impose assessments on DIF insured deposits in order to service the interest on FICO’s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO is in addition to the amount, if any, paid for deposit insurance according to the FDIC’s risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. These payments amounted to 0.32 basis points of assets less tangible equity during the fourth quarter of 2018. Payments will continue until the FICO bonds mature in 2019.

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Acquisitions

Under the Federal Bank Merger Act, prior approval of the FDIC is required for the Bank to merge with or purchase the assets or assume the deposits of another insured depository institution. In reviewing applications seeking approval of merger and acquisition transactions, the FDIC will consider, among other factors, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the CRA (see “Community Reinvestment”) and its compliance with fair housing and other consumer protection laws and the effectiveness of the subject organizations in combating money laundering activities.

Privacy and Security Protection

The federal banking agencies have adopted regulations for consumer privacy protection that require financial institutions to adopt procedures to protect customers and their "non-public personal information." The regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship, and annually thereafter if there are changes to its policy. In addition, the Bank is required to provide its customers the ability to "opt-out" of: (1) the sharing of their personal information with unaffiliated third parties if the sharing of such information does not satisfy any of the permitted exceptions; and (2) the receipt of marketing solicitations from Bank affiliates.

The Bank is additionally subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the federal banking agencies' expectations for the creation, implementation and maintenance of an information security program, including administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, and protect against anticipated threats or hazards to the security or integrity of such records and unauthorized access to or use of such records or information that could result in substantial customer harm or inconvenience.

Federal law additionally permits each state to enact legislation that is more protective of consumers' personal information. There are periodically privacy bills considered by the New York legislature. Management of the Company cannot predict the impact, if any, of these bills if enacted.

Cybersecurity more broadly has become a focus of federal and state regulators. In March 2015, federal regulators issued two statements regarding cybersecurity to reiterate regulatory expectations regarding cyberattacks compromising credentials and business continuity planning to ensure the rapid recovery of an institution’s operations after a cyberattack involving destructive malware. In October 2016, federal regulators jointly issued an advance notice of proposed rulemaking on enhanced cyber risk management standards that are intended to increase the operational resilience of large and interconnected entities under their supervision. Once established, the enhanced cyber risk management standards would help to reduce the potential impact of a cyber-attack or other cyber-related failure on the financial system. The advance notice of proposed rulemaking addresses five categories of cyber standards: (1) cyber risk governance; (2) cyber risk management; (3) internal dependency management; (4) external dependency management; and (5) incident response, cyber resilience, and situational awareness. In March 2017, the NYSDFS made effective regulations that require financial institutions regulated by the NYSDFS, including the Bank, to, among other things, (i) establish and maintain a cyber security program designed to ensure the confidentiality, integrity and availability of their information systems; (ii) implement and maintain a written cyber security policy setting forth policies and procedures for the protection of their information systems and nonpublic information; and (iii) designate a Chief Information Security Officer. The Company will continue to monitor any developments related to these proposed rulemakings as part of its ongoing cyber risk management. See "Item 1A - Risk Factors" for a further discussion of cybersecurity risks.

Consumer Protection and Compliance Provisions

The Bank is subject to various consumer protection laws and regulations. The Bank may be subject to potential liability for material violations of these laws and regulations, in the form of litigation by governmental and consumer groups, the FDIC and other federal regulatory agencies including the Department of Justice. Moreover, the Consumer Financial Protection Bureau (“CFPB”) has broad rule-making authority for a wide range of consumer protection laws that apply to all depository institutions, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices.

Insurance Activities

As a NYS-chartered savings bank, the Bank is generally permitted to engage in certain insurance activities: (i) directly in places where the population does not exceed 5,000 persons, or (ii) in places with larger populations through subsidiaries if certain conditions are satisfied. Federal agency regulations prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement by the consumer not to purchase an insurance product or annuity from an entity not affiliated with the depository institution. The regulations additionally require prior disclosure of this prohibition if such products are offered to credit applicants. Compliance with these regulations has not had a material impact upon the Bank's financial condition or results of operations.

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Federal Home Loan Bank ("FHLB") System

The Bank is a member of the FHLBNY, which is one of the eleven regional FHLBs composing the FHLB System. Each FHLB provides a central credit facility primarily for its member institutions. Any advances from the FHLBNY must be secured by specified types of collateral, and long-term advances may be obtained only for the purpose of providing funds for residential housing finance. The Bank, as a member of the FHLBNY, is currently required to acquire and hold shares of FHLBNY Class B stock as a membership requirement and must hold additional stock based on its FHLB borrowing and certain other activities. The Bank was in compliance with these requirements with an investment in FHLBNY Class B stock of $57.6 million at December 31, 2018. The FHLBNY can adjust the specific percentages and dollar amount periodically within the ranges established by the FHLBNY capital plan.

Federal Reserve System

The Bank is subject to FRA and FRB regulations requiring state-chartered depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and regular checking accounts). Because required reserves must be maintained in the form of vault cash, a low-interest-bearing account at a Federal Reserve Bank, or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to satisfy the FRB reserve requirements may be used to satisfy liquidity requirements imposed by the FDIC.

The Federal Reserve Banks pay interest on depository institutions' required and excess reserve balances. The interest rate paid on required reserve balances and excess balances as of December 31, 2018 was 2.40%.

Depository institutions are additionally authorized to borrow from the Federal Reserve "discount window," however, FRB regulations require such institutions to hold reserves in the form of vault cash or deposits with Federal Reserve Banks in order to borrow.

Anti-Money Laundering and Customer Identification

Financial institutions are subject to Bank Secrecy Act amendments and specific federal agency guidance in relation to implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("PATRIOT Act"). The PATRIOT Act provides the federal government with powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the PATRIOT Act enacted measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of Title III and the FDIC guidance impose affirmative obligations on a broad range of financial institutions, including banks and thrifts. Title III imposes the following requirements, among others, with respect to financial institutions: (i) establishment of anti-money laundering programs; (ii) establishment of procedures for obtaining identifying information from customers opening new accounts, including verifying their identity within a reasonable period of time; (iii) establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and (iv) prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks. In addition, the NYSDFS issued a final regulation in June 2016 that sets forth, for financial institutions chartered or licensed under the New York Banking Law, the attributes of certain compliance programs such institutions must have to ensure compliance with Bank Secrecy Act/Anti-Money Laundering laws and regulations and sanctions administered by the Office of Foreign Assets Control ("OFAC"). The regulation requires the board of directors or a senior officer of an institution to make an annual finding as to an institution's compliance with the requirements of the regulation.

Finally, bank regulators are directed to consider an organization’s effectiveness in preventing money laundering when reviewing and acting on regulatory applications.

OFAC Regulation

OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals, and others. Failure to comply with these sanctions could have serious legal and reputational consequences.

Regulation of the Holding Company

The Bank has made an election under Section 10(l) of the HOLA to be treated as a “savings association” for purposes of regulation of the Holding Company. As a result, the Holding Company is registered with the FRB as a non-diversified unitary savings and loan holding company within the meaning of the HOLA. The Holding Company is currently subject to FRB regulations, examination, enforcement and supervision, as well as reporting requirements applicable to savings and loan holding companies. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the safety, soundness or stability of a subsidiary depository institution. In addition, the FRB has enforcement authority over the Holding Company’s non-depository institution subsidiaries. If the Bank does not continue to satisfy the QTL test, the Holding Company must change its status with the FRB as a savings and loan holding company and register as a bank holding company under the BHCA. (See "Regulation of New York State-Chartered Savings Banks – QTL Test").

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HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring another savings association or holding company thereof, without prior written approval of the FRB; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, non-subsidiary holding company, or non-subsidiary company engaged in activities other than those permitted by HOLA; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application by a holding company to acquire a savings association, the FRB must consider the financial and managerial resources and future prospects of the company and savings association involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, and competitive factors.

The Gramm-Leach Bliley Act of 1999 (“Gramm-Leach”) additionally restricts the powers of certain unitary savings and loan holding companies. A unitary savings and loan holding company that is "grandfathered," i.e., became a unitary savings and loan holding company pursuant to an application filed with the Office of Thrift Supervision (the regulator of savings and loan holding companies prior to the FRB) prior to May 4, 1999, such as the Holding Company, retains the authority it possessed under the law in existence as of May 4, 1999. All other savings and loan holding companies are limited to financially related activities permissible for bank holding companies, as defined under Gramm-Leach. Gramm-Leach also prohibits non-financial companies from acquiring grandfathered savings and loan holding companies.

Upon any non-supervisory acquisition by the Holding Company of another savings association or a savings bank that satisfies the QTL test and is deemed to be a savings association and that will be held as a separate subsidiary, the Holding Company will become a multiple savings and loan holding company and will be subject to limitations on the types of business activities in which it may engage. HOLA limits the activities of a multiple savings and loan holding company and its non-insured subsidiaries primarily to activities permissible under Section 4(c) of the BHCA, subject to prior approval of the FRB, or the activities permissible for financial holding companies under Section 4(k) of the BHCA, if the company meets the requirements to be treated as a financial holding company, and to other activities authorized by federal agency regulations.

Federal agency regulations prohibit regulatory approval of any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, subject to two exceptions: an acquisition of a savings association in another state (i) in a supervisory transaction, or (ii) pursuant to authority under the laws of the state of the association to be acquired that specifically permit such acquisitions. The conditions imposed upon interstate acquisitions by those states that have enacted authorizing legislation vary.

The Reform Act extended the “source of strength” doctrine to savings and loan holding companies. The FRB has issued regulations implementing the “source of strength” policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may also be restricted if a subsidiary bank becomes undercapitalized. The policy statement also specifies that a holding company should consult with FRB supervisory staff prior to redeeming or repurchasing common or perpetual preferred stock when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock such that the repurchase or redemption would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurs. More recently, FRB staff has been interpreting the Basel III capital rules to require holding companies to receive approval prior to redeeming or repurchasing any common stock. These regulatory policies could affect the ability of the Company to pay dividends, repurchase common stock or otherwise engage in capital distributions.

Restrictions on the Acquisition of the Holding Company

Under the Federal Change in Bank Control Act ("CIBCA") and implementing regulations, a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the shares of outstanding Common Stock, unless the FRB has found that the acquisition will not result in a change in control of the Holding Company. Under CIBCA and implementing regulations, the FRB generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer; the convenience and needs of the communities served by the Holding Company, the Bank; and the anti-trust effects of the acquisition. Under HOLA, any company would be required to obtain approval from the FRB before it may obtain "control" of the Holding Company within the meaning of HOLA. Control is generally defined to mean the ownership or power to vote 25% or more of any class of voting securities of the Holding Company or the ability to control in any manner the election of a majority of the Holding Company’s directors, although a person or entity may also be determined to “control” the Holding Company without satisfying these requirements if it is determined that he, she or it directly or indirectly exercises a controlling influence over the management or policies of the Holding Company. In addition, an existing bank holding company or savings and loan holding company would, under federal banking laws and regulations, generally be required to obtain FRB approval before acquiring more than 5% of the Holding Company’s voting stock.

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In addition to the applicable federal laws and regulations, NYS Banking Law generally requires prior approval of the Superintendent before any action is taken that causes any company to acquire direct or indirect control of a banking institution organized in New York.

Federal Securities Laws

The Common Stock is registered with the SEC under Section 12(g) of the Exchange Act. It is subject to the periodic reporting, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Delaware Corporation Law

The Holding Company is incorporated under the laws of the State of Delaware, and, therefore, is subject to regulation by the State of Delaware, and the rights of its shareholders are governed by the Delaware General Corporation Law.

Item 1A. Risk Factors

The continued expansion of the Bank's Business Banking division may subject the Bank to increased lending risks.

During the year ended December 31, 2018, the Business Banking division originated $178.5 million of C&I loans and $303.0 million of direct-sourced commercial real estate loans, and the Bank intends to increase such originations. Strategic plans for the year ended December 31, 2019 also include increased originations of ADC loans and SBA loans. Such loans generally carry a greater risk of loss than one-to-four family and multifamily residential real estate loans. Since the repayment of commercial loans depends on the successful operation of the borrower's business or properties, repayment of such loans can be affected by adverse conditions in the real estate market or local economy, or mismanagement of the business. As the Bank's C&I loans are relatively unseasoned, it is difficult to assess the future performance of recently originated loans because of their limited payment history from which to judge future collectability. These loans may experience higher delinquency or charge-off levels than our historical loan portfolio experience, which could adversely affect our future performance. Because the Bank plans to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

The Bank's commercial real estate lending may subject it to greater risk of an adverse impact on operations from a decline in the economy.

The credit quality of the Bank's portfolio can have a significant impact on the Company's earnings, results of operations and financial condition. As part of the Company's strategic plan, it originates loans secured by commercial real estate that are generally viewed as exposing lenders to a greater risk of loss than both one-to-four family and multifamily residential real estate loans. Because payments on loans secured by commercial real estate are often dependent upon successful operation or management of the collateral properties, as well as the success of the business and retail tenants occupying the properties, repayment of such loans are generally more vulnerable to weak economic conditions. Further, the collateral securing such loans may depreciate over time, be difficult to appraise, or fluctuate in value based upon the rentability, among other commercial factors.

The performance of Bank's multifamily and mixed-use loans could be adversely impacted by regulation or a weakened economy.

Multifamily and mixed-use loans generally involve a greater risk than one-to-four family residential loans because government regulations such as rent control and rent stabilization laws, which are outside the control of the borrower or the Bank, could impair the value of the security for the loan or the future cash flow of such properties. As a result, rental income might not rise sufficiently over time to satisfy increases in the loan rate at repricing or increases in overhead expenses (e.g., utilities, taxes, etc.). Impaired loans are thus difficult to identify before they become problematic. In addition, if the cash flow from a collateral property is reduced (e.g., if leases are not obtained or renewed), the borrower’s ability to repay the loan and the value of the security for the loan may be impaired.

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If bank regulators impose limitations on the Bank’s commercial real estate lending activities, earnings could be adversely affected.

In 2006, the federal bank regulatory agencies issued joint guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” (the “CRE Guidance”). Although the CRE Guidance did not establish specific lending limits, it provides that a bank’s commercial real estate lending exposure may receive increased supervisory scrutiny where total non-owner occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate and construction and land loans, represent 300% or more of an institution’s total risk-based capital and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. The Company’s level of non-owner occupied commercial real estate equaled 703% of total risk-based capital at December 31, 2018. Including owner-occupied commercial real estate, the ratio of commercial real estate loans to total risk-based capital ratio would be 734% at December 31, 2018.

In December 2016, the federal bank regulatory agencies released a new statement on prudent risk management for commercial real estate lending (the “2015 Statement”). In the 2015 Statement, the federal bank regulatory agencies express concerns about easing commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that the federal bank regulatory agencies will continue “to pay special attention” to commercial real estate lending activities and concentrations going forward. If the NYSDFS or FRB were to impose restrictions on the amount of commercial real estate loans the Bank can hold in its portfolio, or require higher capital ratios as a result of the level of commercial real estate loans held, the Bank’s earnings could be adversely affected.

Changes in interest rates could affect the Bank’s profitability.

The Bank’s ability to earn a profit depends primarily on net interest income, which is the difference between the interest income that the Bank earns on its interest-earning assets, such as loans and investments, and the interest expense that the Bank pays on its interest-bearing liabilities, such as deposits and borrowings. The Bank’s profitability depends on its ability to manage its assets and liabilities during periods of changing market interest rates.

In a period of increased interest rates, the interest income earned on the Bank’s assets may not increase as rapidly as the interest paid on its liabilities. In such an environment, the Bank’s cost of funds is expected to increase more rapidly than interest earned on its loan and investment portfolio, as its primary source of funds is deposits with generally shorter maturities than those on its loans and investments. This makes the balance sheet more liability sensitive in the short term. Such an increase in the cost of funds, without a corresponding increase in the yield of the Bank’s loan portfolio, could reduce the Bank’s profitability.

A sustained decrease in market interest rates could also adversely affect the Bank’s earnings. When interest rates decline, borrowers tend to refinance higher rate loans at lower rates. Under those circumstances, the Bank would not be able to reinvest those prepayments in assets earning interest rates as high as the rates on those prepaid loans. Additionally, changes in interest rates also affect the fair value of the securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. A decrease in high-yielding loans or fluctuations in the securities portfolio could reduce the Bank’s profitability.

The Company's business may be adversely affected by conditions in the financial markets and economic conditions generally and in the areas in which it conducts its business.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, particularly in the local NYC metropolitan area where the Company conducts substantially all of its business. Conditions in the marketplace for the Bank's property collateral types (mainly multifamily and commercial real estate) remained stronger than most other parts of the country throughout the years of the financial crisis, and have since rebounded to healthy pre-crisis levels. However, a return to prolonged deteriorating economic conditions could significantly affect the markets in which the Bank does business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and unemployment levels may result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations.

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The Company’s information technology systems may be subject to failure, interruption or security breaches.

The Company’s information technology systems, as well as those of third party service providers, are critical to the Company’s business. The Company uses various technology systems to manage its customer relationships, general ledger, securities investments, deposits, loans, electronic funds transfers, Internet and mobile banking, ATMs and security systems. The Company collects, processes and stores sensitive customer data by utilizing computer systems and telecommunications networks operated by it and third party service providers. We handle a substantial volume of customer and other financial transactions every day.

Financial services institutions have been subject to, and are likely to continue to be the target of, cyber-attacks, including computer viruses, malicious or destructive code, phishing attacks, distributed denial of service, and other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its employees or customers or of third parties, or otherwise materially disrupt network access or business operations. For example, denial of service attacks have been launched against a number of large financial institutions and several large retailers have disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers. Although the Company takes protective measures, the security of its computer systems, software, and networks may be vulnerable. Because the techniques used to cause security breaches change frequently, the Company may be unable to proactively address these techniques or to implement adequate preventative measures.

Misconduct by employees could also result in fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. The Company may not be able to prevent employee errors or misconduct, and the precautions the Company takes to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject the Company to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on our business.

The Company has established policies and procedures, installed security systems and implemented backup systems, in order to prevent or limit the impact of any human error, misconduct, malfeasance, system failure or interruption, or security breach. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. However, system failure or breaches may still occur and may not be adequately addressed if they do occur.

Any system failure or breach could adversely affect our ability to process transactions and provide services. The occurrence of any system failures, interruption, or breach of security could also damage our reputation, result in a loss of customers and business, subject us to additional regulatory scrutiny, result in a violation of applicable privacy and other law, expose us to litigation, and result in financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

In addition, the Company outsources a majority of its data processing to certain third-party providers. If these third-party providers encounter difficulties, or if the Company has difficulty communicating with them, the Company’s ability to adequately process and account for transactions could be affected, and its business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The Bank’s allowance for loan losses may be insufficient.

The Bank’s allowance for loan losses is maintained at a level considered adequate by management to absorb probable incurred losses inherent in its loan portfolio. The amount of inherent loan losses which could be ultimately realized is susceptible to changes in economic, operating and other conditions, including changes in interest rates that could be beyond the Bank’s control. Such losses could exceed current estimates. Although management believes that the Bank’s allowance for loan losses is adequate, there can be no assurance that the allowance will be sufficient to satisfy actual loan losses should such losses be realized.

Additionally, the Financial Accounting Standards Board (“FASB”) has adopted a new accounting standard that will be effective for us for the fiscal year beginning January 1, 2020. This standard, referred to as “Current Expected Credit Loss” (“CECL”), will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require the Bank to increase its allowance for loan losses and to greatly increase the types of data it collects and reviews to determine the appropriate level of the allowance for loan losses. The Company is currently evaluating the effect that the CECL model will have on its consolidated financial statements, but the extent of the effect is indeterminable at this time as it will be dependent on the nature and characteristics of the Bank’s loan portfolio at the adoption date, as well as economic conditions and forecasts at that date. Any increases in the allowance for loan losses will result in a decrease in net income and capital, and may have a material adverse effect on the Bank’s financial condition and results of operations.

The Company operates in a highly regulated industry and is subject to uncertain risks related to changes in laws, government regulation and monetary policy.

The Holding Company and the Bank are subject to extensive legislation, as well supervision, regulation and examination by the NYSDFS (the Bank's primary regulator), the FRB (the Holding Company's primary regulator) and the FDIC, as the Bank's deposit insurer. Such laws and regulations limit the manner in which the Holding Company and Bank conduct business, undertake new investments and activities and obtain financing. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. This regulatory scheme is designed primarily for the protection of the deposit insurance funds and the Bank’s depositors, and not to benefit shareholders or creditors.

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Failure to comply with applicable laws and regulations could subject the Holding Company and Bank to regulatory enforcement actions, including administrative orders that may be judicially enforced, the imposition of capital requirements, restrictions on the growth of the Holding Company and the Bank, the removal of officers or directors, or the assessment of significant civil money penalties against the Holding Company and the Bank. If the Holding Company or the Bank becomes subject to any regulatory actions, it could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

Expansion, growth and acquisitions could negatively impact earnings if not successful.

The Company may grow organically, by geographic expansion, through business line expansion, and through acquisitions of branches or other financial institutions or financial services companies. The success of any expansion endeavor depends on the Company's ability to continue to maintain and develop an infrastructure appropriate to support and integrate such growth, as well as the Company's ability to successfully introduce new products and services to its customers or to enter new markets.

Merger and acquisition activities are subject to a number of risks, including lending, operating, and integration risks. Acquisitions may disrupt the Company's business by diverting management's time and attention, and may expose the Company to unknown or contingent liabilities, or asset quality problems, of the target company. Such growth requires careful due diligence, evaluation of risks, and projections of future operations and financial conditions. Actual results may differ from expectations and could have a material adverse effect on the Company's financial condition and results of operations. Acquisitions often involve the negotiation and execution of extensive merger agreements, which may lead to litigation risks or operating constraints.

Additionally, as the Company grows, its total assets will approach the $10 billion threshold for additional Dodd Frank regulatory requirements. These regulations affect revenues and operating costs, and introduce additional compliance requirements. If additional investments in growth are not sufficiently profitable, some profitability metrics may be reduced.

Competition from other financial institutions or government agencies in originating loans and attracting deposits may limit our growth and adversely affect profitability.

The Bank operates in a highly competitive industry and market area, which could become even more competitive as a result of legislative, regulatory and technological changes, and continued consolidation. The Bank competes with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Recently, new market entrants such as government sponsored agencies have also begun to compete in our marketplace. The Bank faces sustained competition for the origination of multifamily residential and commercial real estate loans, which may inhibit the Bank's ability to maintain its current level and pricing of such loans. Customers may also be persuaded to pursue alternatives to the Bank's deposits, causing the Bank to lose a historically less expensive source of funding. Any loss of business to the Bank's competitors would adversely affect its profitability.

The Holding Company's depends on the success and growth of the Bank.

The Holding Company's primary business activity is to act as the holding company of the Bank. Therefore, the Holding Company's future profitability will depend on the success and growth of this subsidiary. The continued and successful implementation of the Holding Company's growth strategy will require, among other things that the Bank increases its market share by attracting new customers that currently bank at other financial institutions in the Bank's market area.

Additionally, the Holding Company's principal source of funds to make payments on its subordinated debt securities and pay dividends on the Common Stock are the dividends and other distributions it receives from the Bank. The Holding Company's ability to receive dividends and other distributions from the Bank is contingent on a number of factors, including the Bank's ability to meet applicable regulatory capital requirements and the Bank's profitability and earnings and strength of its balance sheet.

The Bank is subject to stringent capital requirements.

Effective January 1, 2015, the federal banking agencies adopted the Basel III Capital Rules, which apply to both the Bank and Holding Company. These rules were subject to phase-in periods until January 1, 2019 for certain of their components. The Basel III Capital Rules will result in significantly higher capital requirements and more restrictive leverage and liquidity ratios for the Bank than those previously in effect. The Basel III Capital Rules also apply to the Holding Company, which, as a savings and loan holding company, was not previously subject to consolidated risk-based capital requirements. As of December 31, 2018, the Bank satisfied the requirements of the Basel III Capital Rules, inclusive of the capital conservation buffer, as phased in by the FRB.

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However, higher required capital levels could have a negative impact on the Bank’s ability to lend, grow deposit balances, make acquisitions and make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower the Company’s consolidated return on equity.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models.

The processes the Company uses to estimate its probable incurred loan losses and to measure the fair value of some financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company’s financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models the Company uses for determining its probable incurred loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the model the Company uses to measure the fair value of financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such failure in the Company’s analytical or forecasting models could have a material adverse effect on the Company’s business, financial condition and results of operations.

The value of the Company’s goodwill and other intangible assets may decline in the future.

As of December 31, 2018, the Company had $55.6 million of goodwill and other intangible assets. A significant decline in the Company’s expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of the Common Stock could result in impairment to goodwill. If the Company identified impairment to goodwill, it would be required to record the appropriate charge to its earnings, which could have an adverse effect on the Company’s business, financial condition and results of operations.

The Company’s controls and procedures may fail or be circumvented.

The Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are satisfied. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's risk management practices may not be effective in mitigating the risks to which it is subject or in reducing the potential for losses in connection with such risks.

As a financial institution, the Company is subject to a number of risks, including credit, interest rate, liquidity, market, operational, legal/compliance, reputational, and strategic. The Company's risk management framework is designed to minimize the risks to which it is subject, as well as any losses resulting from such risks. Although the Company seeks to identify, measure, monitor, report, and control the Company's exposure to such risks, and employ a broad and diversified set of risk monitoring and mitigation techniques in the process, those techniques are inherently limited because they cannot anticipate the existence or development of risks that are currently unknown and unanticipated.

For example, recent economic conditions, heightened legislative and regulatory scrutiny of the financial services industry, and increases in the overall complexity of the Company's operations, among other developments, have resulted in the creation of a variety of risks that were previously unknown and unanticipated, highlighting the intrinsic limitations of the Company's risk monitoring and mitigation techniques. As a result, the further development of previously unknown or unanticipated risks may result in the Company incurring losses in the future that could adversely impact its financial condition and results of operations.

The Company's operations rely on certain external vendors.

The Company relies on certain external vendors to provide products and services necessary to maintain its day-to-day operations. Accordingly, the Company’s operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements. The failure of an external vendor to perform in accordance with the contracted arrangements because of changes in the vendor’s organizational structure, financial condition, support for existing products and services, or strategic focus, or for any other reason, could be disruptive to the Company’s operations, which could have a material adverse impact on the Company’s business and, in turn, the Company’s financial condition and results of operations.

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The Company is subject to environmental liability risk associated with lending activities.

A significant portion of the Company’s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property’s value or limit the Company’s ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company’s exposure to environmental liability. Environmental reviews of real property before initiating foreclosure may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company’s business, financial condition and results of operations.

Negative public opinion could damage the Company's reputation and adversely impact its business and revenues.

As a financial institution, the Bank's earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from the Company's actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by the Bank to meet customers’ expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company's ability to attract and retain clients and can expose the Company to litigation and regulatory action. Negative public opinion could also affect the Company's credit ratings, which are important to its access to unsecured wholesale borrowings. Significant changes in these ratings could change the cost and availability of these sources of funding.

The trading volume in the Common Stock is less than that of other larger financial services companies.

Although the Common Stock is listed for trading on the Nasdaq National Exchange, the trading volume in its Common Stock is less than that of other, larger financial services companies. This means that the Common Stock has less liquidity than the trading market for many other larger financial services companies. General market declines or market volatility in the future, especially in the financial institutions sector of the economy, could adversely affect the price of the Common Stock, and the current market price may not be indicative of future market prices. Accordingly, stockholders may not be able to sell their shares of Common Stock at the volume, prices or times that they desire.

The Holding Company may reduce or eliminate dividends on its Common Stock in the future.

Although the Holding Company has historically declared cash dividends on its Common Stock, it is not required to do so and may reduce or eliminate its Common Stock dividend in the future. In addition, the Holding Company is a savings and loan holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. A reduction or elimination of dividend payments could adversely affect the market price of the Common Stock.

We may be required to transition away from the use of the London interbank offered rate (“LIBOR”) in the future.

On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally.

The market transition away from LIBOR to an alternative reference could:

- adversely affect the interest rates paid or received on, and the revenue and expenses associate with, the Company’s floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR’s role in determining market interest rates globally;

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- adversely affect the value of the Company’s floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR’s role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of the Company’s preparation and readiness for the replacement of LIBOR with an alternative reference rate;
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based loans, deposits, and securities; and
- require the transition to or development of appropriate systems and analytics to effectively transition the Company’s risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark, such as the Federal Reserve Bank of New York’s Secured Overnight Finance Rate (“SOFR”).

The manner and impact of this transition, as well as the effects of these developments on the Company’s funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, are uncertain.

A change in the Bank’s charter may have tax implications.

The Bank has applied to change its charter from a savings bank charter to a commercial bank charter. There are tax benefits the Bank receives as a savings bank charter that may not be available following a charter change.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Holding Company neither owns nor leases any property, but instead uses the premises and equipment of the back office of the Bank. The Bank leases commercial office space for its corporate and administrative office located at 300 Cadman Plaza West, 8th Floor, Brooklyn, New York 11201. The Bank maintains its principal office in the Williamsburg section of the borough of Brooklyn. As of December 31, 2018, the Bank conducted its business through twenty-nine full-service retail banking offices and two corporate offices located throughout Brooklyn, Queens, the Bronx and Nassau County and Suffolk County, New York. The Bank also has one operations office located in New Jersey. As of December 31, 2018, the Bank owned eight of these offices, and leased twenty-four.

Item 3. Legal Proceedings

In the ordinary course of business, the Holding Company and the Bank are routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management as of December 31, 2018, neither the Holding Company nor the Bank were involved in any actions or proceedings that were likely to have a material adverse impact on the Company's consolidated financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Common Stock is traded on the Nasdaq National Market and quoted under the symbol "DCOM."

As of March 1, 2019, the Company had approximately 6,500 holders of record of its common stock.

The Holding Company is subject to the requirements of Delaware law, which generally limits dividends to an amount equal to the excess of net assets (i.e., the amount by which total assets exceed total liabilities) over statutory capital, or if no such excess exists, to net profits for the current and/or immediately preceding fiscal year.

During the year ended December 31, 2018, the Holding Company paid cash dividends totaling $20.8 million, representing $0.56 per outstanding common share. During the year ended December 31, 2017, the Holding Company paid cash dividends totaling $21.0 million, representing $0.56 per outstanding common share.

Issuer Purchases of Equity Securities

The following table summarizes information regarding purchases of Common Stock during the fourth quarter of 2018 in accordance with the approved stock repurchase plan:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Maximum Number of Shares that may Yet be Purchased Under the Programs (1)
October 2018	141,349	$ 17.81	141,349	1,814,040
November 2018	96,400	$ 16.94	96,400	1,717,640
December 2018	256,500	$ 16.89	256,500	1,467,140

(1) The twelfth stock repurchase program was publicly announced in June 2007, authorizing the purchase of up to 1,787,665 shares of Common Stock, and has no expiration. The shares from this plan were fully re-purchased in October 2018. The thirteenth stock repurchase program was publicly announced in October 2018, authorizing the purchase of up to 1,824,040 shares of Common Stock, and has no expiration date.

Performance Graph

The graph below compares the Holding Company's stock performance with that of the total return for the U.S. Nasdaq Stock Market and an index of all thrift stocks as reported by S&P Global Market Intelligence from January 1, 2013 through December 31, 2018. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.

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	Year Ended December 31,					
Index	2013	2014	2015	2016	2017	2018
Dime Community Bancshares, Inc.	$100.00	$99.73	$110.88	$131.73	$141.14	$118.04
NASDAQ Composite	$100.00	$114.75	$122.74	$133.62	$173.22	$168.30
SNL Thrift Index	$100.00	$107.55	$120.94	$148.14	$147.06	$123.87

Item 6. Selected Financial Data

The consolidated financial and other data of the Company as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 set forth below is derived in part from, and should be read in conjunction with, the Company's audited Consolidated Financial Statements and Notes thereto. Certain amounts as of and for the years ended December 31, 2015 and 2014 have been reclassified to conform to the December 31, 2018, 2017 and 2016 presentation. These reclassifications were not material.

	At or for the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Total assets	$6,320,578	$6,403,460	$6,005,430	$5,032,872	$4,497,107
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	5,373,133	5,581,084	5,615,886	4,678,262	4,100,747
MBS	466,605	351,384	3,558	431	26,409
Investment securities (including FHLBNY capital stock)	99,498	66,417	60,670	77,912	76,139
Federal funds sold and other short-term investments	—	—	—	—	250
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	4,356,754	4,403,447	4,395,426	3,184,310	2,659,792
Borrowings	1,239,109	1,283,612	901,805	1,237,405	1,244,405
Stockholders' equity	602,081	598,567	565,868	493,947	459,725
Selected Operating Data:					
Interest income	$221,710	$212,096	$195,627	$174,791	$172,952
Interest expense	75,384	59,366	52,141	46,227	48,416
Net interest income	146,326	152,730	143,486	128,564	124,536
Provision (credit) for loan losses	2,244	520	2,118	(1,330)	(1,872)
Net interest income after provision (credit) for loan losses	144,082	152,210	141,368	129,894	126,408
Non-interest income	9,523	21,514	75,934	8,616	9,038
Non-interest expense	86,890	84,986	83,831	62,493	61,076
Income before income tax	66,715	88,738	133,471	76,017	74,370
Income tax expense	15,427	36,856	60,957	31,245	30,124
Net income	$51,288	$51,882	$72,514	$44,772	$44,246

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	At or for the Year Ended December 31,				
	2018	2017	2016	2015	2014
SELECTED FINANCIAL RATIOS AND OTHER DATA (1):					
Return on average assets	0.82 %	0.84 %	1.31 %	0.96 %	1.03 %
Return on average stockholders' equity	8.44	8.94	13.40	9.40	9.83
Stockholders' equity to total assets at end of period	9.53	9.35	9.42	9.81	10.22
Loans to deposits at end of period	123.80	127.22	128.23	147.50	154.87
Loans to interest-earning assets at end of period	87.01	89.20	95.92	95.98	94.68
Net interest spread (2)	2.20	2.38	2.52	2.72	2.84
Net interest margin (3)	2.41	2.54	2.68	2.89	3.03
Average interest-earning assets to average interest-bearing liabilities	117.47	116.55	116.85	116.64	115.98
Non-interest expense to average assets	1.38	1.37	1.51	1.34	1.42
Efficiency ratio (4)	56.25	53.24	55.48	45.98	46.28
Effective tax rate	23.12	41.53	45.67	41.10	40.51
Dividend payout ratio	40.58	40.58	28.43	45.53	45.53
Per Share Data:					
Diluted earnings per share	$1.38	$1.38	$1.97	$1.23	$1.23
Cash dividends paid per share	0.56	0.56	0.56	0.56	0.56
Book value per share (5)	16.68	16.00	15.11	13.22	12.47
Asset Quality Ratios and Other Data(1):					
Net charge-offs (recoveries)	$1,495	$23	$97	$(1,351)	$(212)
Total non-performing loans	2,345	533	4,237	1,611	6,198
OREO	—	—	—	148	18
Non-performing pooled trust preferred securities ("TRUP CDOs")	—	—	1,270	1,236	904
Total non-performing assets	2,345	533	5,507	2,995	7,120
Non-performing loans to total loans	0.04 %	0.01 %	0.08 %	0.03 %	0.15 %
Non-performing assets to total assets	0.04	0.01	0.09	0.06	0.16
Allowance for Loan Losses to:					
Non-performing loans	928.87 %	3,946.15 %	484.68 %	1,149.22 %	298.37 %
Total loans (6)	0.40	0.38	0.36	0.39	0.45
Regulatory Capital Ratios: (Bank only) (1)(7)					
Tier 1 common equity ratio	13.34 %	12.38 %	11.60 %	11.55 %	12.33 %
Tier 1 capital ratio	13.34	12.38	11.60	11.55	12.33
Total risk-based ratio	13.80	12.83	12.05	12.03	12.89
Tier 1 leverage ratio	10.31	9.32	8.95	9.17	9.64
Full Service Branches	29	28	25	25	25

(1) With the exception of end of period ratios, all ratios are based on average daily balances during the indicated periods. Asset Quality Ratios and Regulatory Capital Ratios are end of period ratios.
(2) The net interest spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
(3) The net interest margin represents net interest income as a percentage of average interest-earning assets.
(4) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income, excluding any gains or losses on sales of assets.
(5) Book value per share equals total stockholders' equity divided by shares outstanding at each period end.
(6) Total loans represent loans, net of deferred fees and costs and unamortized premiums, and excluding (thus not reducing the aggregate balance by) the allowance for loan losses.

(7) Regulatory capital ratios are calculated based upon the Basel III capital rules that became effective on January 1, 2015. Pro forma ratios computed as of December 31, 2015 have been provided, however, periods prior to December 31, 2015 are not provided.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, mortgage banking related income, and income associated with bank owned life insurance ("BOLI"). Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, occupancy and equipment, marketing and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary deposit strategy is generally to increase its product and service utilization for each depositor, and to increase its household and deposit market shares in the communities that it serves. In recent years, particular emphasis has been placed upon growing individual and small business commercial checking account balances. The Bank also actively strives to obtain checking account balances affiliated with the operation of the collateral underlying its real estate and C&I loans, as well as personal deposit accounts from its borrowers. Historically, the Bank's primary lending strategy included the origination of, and investment in, real estate loans secured by multifamily and mixed-use properties, and, to a lesser extent, real estate loans secured by commercial real estate properties, primarily located in the greater NYC metropolitan area. As part of its strategic plan for 2018 and beyond, the Bank is investing in the development of its Business Banking division, by adding products and services to serve both the credit and business banking needs in its footprint.

The Business Banking division is focused on total relationship banking and will enable the Bank to diversify its loan portfolio into areas such as C&I loans, Small Business Administration ("SBA") loans (a portion of which is guaranteed by the SBA), ADC loans, finance loans and leases, one-to-four family loans and consumer loans. These business lines are intended to supplement core deposit growth and provide greater funding diversity. In the first quarter of 2017, the Bank hired seasoned executives, and bolstered its lending and credit and administrative staff. In the third quarter of 2017, the Bank was approved by the SBA as a lender, and in December 2018 the Bank received "Preferred Lender" status from the SBA, thus better positioning the Business Banking division for future expansion.

Additionally, during the year ended December 31, 2018, the Bank resumed offering one-to-four family loan products.

The Bank also purchases securities primarily for liquidity purposes as defined by the Bank's investment policy. The Bank seeks to maintain the asset quality of its loans and other investments, and uses portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

Recent Events

In June 2017, the Company issued $115.0 million of fixed-to-floating rate subordinated notes due June 2027, which will become callable commencing in June 2022. Interest will be paid semi-annually in arrears on each June 15 and December 15 at a fixed annual interest rate equal to 4.50%, until June 2022, at which point the interest rate will reset quarterly to an annual interest rate equal to the then current three-month LIBOR plus 266 basis points. The notes will mature on June 15, 2027. The Company used part of the net proceeds from the offering to redeem its $70.7 million of trust preferred securities, which had a 7.00% annual coupon, in July 2017. See Notes 16 and 17 to the Company's Condensed Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for details of the subordinated notes payable and trust preferred securities payable, respectively.

In December 2017, the Bank completed a securitization of $280.0 million of its multifamily loans through a Freddie Mac sponsored “Q-deal” securitization (“Loan Securitization”). The Structured Pass-Through Certificates that were issued by Freddie Mac were purchased by the Bank as available-for-sale securities to enhance balance sheet liquidity. The Bank will continue to maintain the borrower relationships as the sub-servicer of the loans. See Note 9 to the Company’s Condensed Consolidated Financial Statements for details of the transaction.

In January 2019, the Bank filed an application with the NYSDFS seeking approval to convert from a New York stock savings bank to a New York commercial bank (the “Charter Conversion”). Simultaneously with the Charter Conversion application to NYSDFS, the Holding Company filed an application with the FRB to delist as a savings and loan holding company and elect to become a bank holding company. By letter from the Federal Reserve Bank of Philadelphia, dated March 7, 2019, the Company was informed that the Holding Company’s application to convert from a savings and loan holding company to a bank holding company was approved, subject to receipt of all required regulatory approvals. The Bank has not yet received all required regulatory approvals; therefore, the Charter Conversion and conversion to a bank holding company are not yet effective.

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Critical Accounting Policies

The Company’s accounting and reporting policies are prepared in accordance with GAAP and conform to general practices within the banking industry. See Note 2 to the Company’s Consolidated Financial Statements for the year ended December 31, 2018, which contains the Company’s significant accounting policies.

The Company’s policies with respect to (1) the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments), and (2) accounting for defined benefit plans are its most critical accounting policies because they are important to the presentation of the Company’s consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions or estimates could result in material variations in the Company's consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

Allowance for Loan Losses

The allowance for loan losses is provided to reflect probable incurred losses inherent in the loan portfolio. Management reviews the adequacy of the allowance for loan losses by reviewing all impaired loans on an individual basis. The remaining portfolio is segmented and evaluated on a pooled basis. Factors considered in determining the appropriateness of the allowance for loan losses include the Bank's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations which may affect a borrower's ability to repay, the estimated value of underlying collateral and current economic conditions in the Bank's lending area. Judgment is required to determine the appropriate historical loss experience period, as well as the manner in which to quantify probable losses associated with the additional factors noted above. This evaluation is inherently subjective, as estimates are susceptible to significant revisions as more information becomes available.

Although management uses available information to estimate losses on loans, future additions to, or reductions in, the allowance may be necessary based on changes in economic conditions or other factors beyond management's control. In addition, the Bank's regulators, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses, and may require the Bank to recognize additions to, or reductions in, the allowance based upon judgments different from those of management.

The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 8 to the Company's Consolidated Financial Statements.

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Analysis of Net Interest Income

The Company's profitability, like that of most banking institutions, is dependent primarily upon net interest income. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned or paid on them. The following tables set forth certain information relating to the Company's consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated. Average balances are derived from daily balances. The yields and costs include fees and charges that are considered adjustments to yields and costs. All material changes in average balances and interest income or expense are discussed in the section entitled "Net Interest Income" in the comparisons of operating results commencing on page 35.

	For the Year Ended December 31,								
	2018			2017			2016		
	(Dollars in Thousands)								
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:									
Interest-earning assets:									
Real estate loans [1]	$5,280,735	$194,842	3.69%	$5,778,459	$204,487	3.54%	$5,210,984	$191,856	3.68%
C&I Loans	172,231	9,741	5.66	63,840	3,072	4.81	624	41	6.57
Other loans	1,162	74	6.37	1,110	75	6.76	1,121	74	6.60
MBS	411,437	10,794	2.62	24,381	542	2.22	1,216	20	1.64
Investment securities	11,905	363	3.05	12,404	577	4.64	18,489	880	4.76
Other	182,820	5,896	3.23	127,368	3,343	2.62	118,576	2,756	2.32
Total interest-earning assets	6,060,290	$221,710	3.66%	6,007,562	$212,096	3.53%	5,351,010	$195,627	3.66%
Non-interest earning assets	219,192			204,083			203,758		
Total assets	$6,279,482			$6,211,645			$5,554,768		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing checking accounts	$120,094	$226	0.19%	$113,226	$237	0.21%	$89,197	$230	0.26%
Money Market accounts	2,294,883	28,383	1.24	2,648,909	23,866	0.90	2,063,787	17,293	0.84
Savings accounts	349,989	212	0.06	364,341	187	0.05	367,311	182	0.05
CDs	1,263,256	21,568	1.71	989,319	14,101	1.43	1,015,615	14,669	1.44
Borrowed Funds	1,130,904	24,995	2.21	1,038,497	20,975	2.02	1,043,515	19,767	1.89
Total interest-bearing	5,159,126	$75,384	1.46%	5,154,292	$59,366	1.15%	4,579,425	$52,141	1.14%

liabilities									
Non-interest bearing checking accounts	349,217			301,492			263,527		
Other non-interest-bearing liabilities	163,787			175,431			170,569		
Total liabilities	5,672,130			5,631,215			5,013,521		
Stockholders' equity	607,352			580,430			541,247		
Total liabilities and stockholders' equity	$6,279,482			$6,211,645			$5,554,768		
Net interest income		$146,326			$152,730			$143,486	
Net interest spread (2)			2.20%			2.38%			2.52%
Net interest-earning assets	$901,164			$853,270			$771,585		
Net interest margin (3)			2.41%			2.54%			2.68%
Ratio of interest-earning assets to interest-bearing liabilities		117.47 %			116.55 %			116.85 %	

(1) In computing the average balance of real estate loans, non-performing loans have been included. Interest income on real estate loans includes loan fees. Interest income on real estate loans also includes applicable prepayment fees and late charges totaling $8.2 million, $5.0 million and $9.0 million during the years ended December 31, 2018, 2017 and 2016, respectively.

(2) Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(3) Net interest margin represents net interest income as a percentage of average interest-earning assets.

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Rate/Volume Analysis

The following table represents the extent to which variations in interest rates and the volume of interest-earning assets and interest-bearing liabilities have affected interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) variances attributable to fluctuations in volume (change in volume multiplied by prior rate), (ii) variances attributable to rate (changes in rate multiplied by prior volume), and (iii) the net change. Variances attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Years Ended December 31,					
	2018 over 2017			2017 over 2016		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:	(Dollars in Thousands)					
Real Estate Loans	$(17,963)	$8,318	$(9,645)	$20,410	$(7,779)	$12,631
C&I loans	5,672	996	6,668	3,599	(567)	3,032
Other loans	4	(5)	(1)	(1)	2	1
MBS	9,379	873	10,252	(286)	(18)	(304)
Investment securities	(20)	(193)	(213)	448	74	522
Other	1,615	938	2,553	218	369	587
Total	$(1,313)	$10,927	$9,614	$24,388	$(7,919)	$16,469
Interest-bearing liabilities:						
Interest-bearing checking accounts	$13	$(24)	$(11)	$57	$(50)	$7
Money market accounts	(3,840)	8,357	4,517	5,119	1,454	6,573
Savings accounts	(9)	34	25	2	3	5
CDs	4,301					