OCEANFIRST FINANCIAL CORP
Form 8-K
September 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): September 14, 2016

OCEANFIRST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**001-11713**	**22-3412577**
(State or other jurisdiction of incorporation or organization)	**(Commission File No.)**	**(IRS Employer Identification No.)**

975 HOOPER AVENUE, TOMS RIVER, NEW JERSEY 08753

(Address of principal executive offices, including zip code)

(732)240-4500

(Registrant s telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 140.13e-4(c))

Item 8.01. Other Events.

The purpose of this Current Report on Form 8-K is to file the financial statements and pro forma financial information described in Item 9.01 below.

Item 9.01. Financial Statements, Pro Forma Financial Information and Exhibits.

The following Exhibits are filed with this Current Report on Form 8-K:

(a) ***Financial statements of businesses acquired:***

(b) ***Pro Forma Financial Information*****:**

(d) ***Exhibits*****:**

23.1 Consent of Deloitte & Touche LLP

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

OCEANFIRST FINANCIAL CORP.

/s/ Michael Fitzpatrick
Michael Fitzpatrick
Executive Vice President and
Chief Financial Officer

Dated: September 14, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Ocean Shore Holding Co. and subsidiaries:

We have audited the accompanying consolidated statements of financial condition of Ocean Shore Holding Co. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, statement of changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ocean Shore Holding Co. and subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, PA

March 11, 2016

OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except par value amounts)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and amounts due from depository institutions	$ 7,496	$ 9,023
Interest-earning bank balances	80,214	71,284
Cash and cash equivalents	87,710	80,307
Investment securities held to maturity (estimated fair value $1,137 at December 31, 2015 and $1,278 at December 31, 2014)	1,084	1,201
Investment securities available for sale (amortized cost $113,944 at December 31, 2015 and $112,205 at December 31, 2014)	111,908	110,116
Loans net of allowance for loan losses of $3,190 and $3,760 at December 31, 2015 and 2014	783,948	774,017
Accrued interest receivable:		
Loans	2,330	2,304
Investment securities	21	33
Federal Home Loan Bank stock at cost	5,864	6,039
Office properties and equipment net	12,359	12,870
Prepaid expenses and other assets	2,242	3,161
Real estate owned	1,814	650
Cash surrender value of life insurance	24,457	23,828
Deferred tax asset	4,572	5,062
Goodwill	4,630	4,630
Other intangible assets	440	536
TOTAL ASSETS	$ 1,043,379	$ 1,024,754
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Non-interest bearing deposits	$ 190,614	$ 98,417
Interest bearing deposits	621,419	688,661
Advances from Federal Home Loan Bank	105,000	110,000
Junior subordinated debentures		7,217
Advances from borrowers for taxes and insurance	4,591	4,026
Accrued interest payable	589	879
Other liabilities	9,377	9,743
Total liabilities	931,590	918,943

COMMITMENTS AND CONTINGENCIES (Note 10)

STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued		
Common stock, $.01 par value, 25,000,000 shares authorized, 7,307,590 issued, 6,403,058 and 6,393,344 outstanding shares at December 31, 2015 and 2014	73	73
Additional paid in capital	66,397	66,059
Retained earnings partially restricted	62,480	57,055
Treasury stock at cost: 904,532 and 914,246 at December 31, 2015 and 2014	(12,694)	(12,678)
Common stock acquired by employee benefit plans	(2,297)	(2,639)
Deferred compensation plans trust	(783)	(608)
Accumulated other comprehensive loss	(1,387)	(1,451)
Total stockholders equity	111,789	105,811
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,043,379	$ 1,024,754

See notes to consolidated financial statements.

OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

	Years Ended December 31,		
	2015	**2014**	**2013**
INTEREST AND DIVIDEND INCOME:			
Taxable interest and fees on loans	$ 32,715	$ 32,785	$ 32,094
Taxable interest on mortgage-backed securities	1,408	1,368	1,393
Non-taxable interest on municipal securities	4	7	69
Taxable interest and dividends on investments securities	1,023	1,207	1,416
Total interest and dividend income	35,150	35,367	34,972
INTEREST EXPENSE:			
Deposits	2,537	2,546	3,053
Borrowings	4,159	5,020	5,459
Total interest expense	6,696	7,566	8,512
NET INTEREST INCOME	28,454	27,801	26,460
PROVISION FOR LOAN LOSSES	689	462	757
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,765	27,339	25,703
OTHER INCOME:			
Service charges	1,986	1,753	2,098
Increase in cash surrender value of life insurance	629	633	665
Gain on sale or call of securities	3	95	3
Other	1,772	1,765	1,697
Total other income	4,390	4,246	4,463
OTHER EXPENSES:			
Salaries and employee benefits	12,864	12,684	12,436
Occupancy and equipment	5,001	5,095	5,100
Federal insurance premiums	551	535	541
Advertising	419	429	412
Professional services	1,054	1,035	1,318
Real estate owned activity	144	61	270
Charitable contributions	178	141	147
Other operating expenses	1,677	1,785	1,748

Total other expenses	21,888	21,765	21,972
INCOME BEFORE INCOME TAXES	10,267	9,820	8,194
INCOME TAXES:			
Current	2,936	4,587	1,238
Deferred	463	(1,065)	1,607
Total income taxes	3,399	3,522	2,845
NET INCOME	$ 6,868	$ 6,298	$ 5,349
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Unrealized gain (loss) on available for sale securities	27	1,375	(2,761)
Unrealized gain (loss) on post retirement life benefit	37	(159)	138
Total other comprehensive income, net of tax	64	1,216	(2,623)
TOTAL COMPREHENSIVE INCOME	$ 6,932	$ 7,514	$ 2,726
Earnings per share basic	$ 1.14	$ 1.00	$ 0.82
Earnings per share diluted	$ 1.12	$ 0.98	$ 0.81

See notes to consolidated financial statements.

OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Common Stock Acquired for Employee Benefit Plans	Deferred Compensation Plans Trust	Accumulated Other Comprehensive (Loss)	Total Stockholders Equity
BALANCE January 1, 2013	$ 73	$ 64,842	$ 48,518	$ (4,777)	$ (3,323)	$ (561)	$ (44)	$ 104,776
Comprehensive income:								
Net income			5,349					5,349
Other comprehensive income								
Unrealized holding loss arising from adjustment to Post Retirment Life Benefit							138	138
Unrealized holding gain arising during the period (net of tax of ($1,854))							(2,761)	(2,761)
Total comprehensive income								2,726
Purchase of treasury stock				(965)				(965)
Unallocated ESOP shares commited to employees					342			342
Excess of fair value above cost of ESOP shares committed to be released		178						178
Non-vested shares		218						218
Stock options		163						163
Stock options Exercised				438				438
Purchase of shares by deferred compensation plans trust						(25)		(25)
Current year dividends declared			(1,667)					(1,667)
Unallocated ESOP dividends applied to ESOP loan payment			87					87
	$ 73	$ 65,401	$ 52,287	$ (5,304)	$ (2,981)	$ (586)	$ (2,667)	$ 106,223

BALANCE December 31, 2013								
Comprehensive income:								
Net income			6,298					6,298
Other comprehensive income								
Unrealized holding loss arising from adjustment to Post Retirement Life Benefit							(159)	(159)
Unrealized holding gain arising during the period (net of tax of $923)							1,375	1,375
Total comprehensive income								7,514
Purchase of treasury stock				(7,473)				(7,473)
Unallocated ESOP shares commited to employees					342			342
Excess of fair value above cost of ESOP shares committed to be released		145						145
Non-vested shares		361						361
Stock options		184						184
Stock options Exercised		(32)		99				67
Purchase of shares by deferred compensation plans trust						(22)		(22)
Current year dividends declared			(1,616)					(1,616)
Unallocated ESOP dividends applied to ESOP loan payment			86					86
BALANCE December 31, 2014	$ 73	$ 66,059	$ 57,055	$ (12,678)	$ (2,639)	$ (608)	$ (1,451)	$ 105,811
Comprehensive income:								
Net income			6,868					6,868
Other comprehensive income								
Unrealized holding loss arising from adjustment to Post Retirement Life Benefit							37	37
Unrealized holding gain arising during the period (net of tax of -$26)							27	27
Total comprehensive income								6,932
Purchase of treasury stock				(3,608)				(3,608)
Unallocated ESOP shares commited to employees					342			342

Excess of fair value above cost of ESOP shares committed to be released		181						181
Non-vested shares		299						299
Stock options		175						175
Stock options Exercised		(317)		3,592				3,275
Purchase of shares by deferred compensation plans trust						(175)		(175)
Current year dividends declared			(1,514)					(1,514)
Unallocated ESOP dividends applied to ESOP loan payment			71					71
BALANCE December 31, 2015	$ 73	$ 66,397	$ 62,480	$ (12,694)	$ (2,297)	$ (783)	$ (1,387)	$ 111,789

See notes to consolidated financial statements.

OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended December 31,		
	2015	**2014**	**2013**
OPERATING ACTIVITIES:			
Net income	$ 6,868	$ 6,298	$ 5,349
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	878	1,280	600
Provision for loan losses	689	462	757
Deferred income taxes	463	(1,065)	1,607
Stock based compensation expense	997	1,032	903
Gain on sale/call of AFS securities	(3)	(95)	(3)
Premium paid on redemption of junior subordinated debt	94	54	112
Cash surrender value of life insurance	(629)	(633)	(665)
Loss on sale of office properties and equipment	1		
Valuation adjustment on real estate owned	59		
Changes in assets and liabilities which provided (used) cash:			
Accrued interest receivable	(14)	196	48
Prepaid expenses and other assets	919	(99)	2,512
Accrued interest payable	(290)	(145)	(233)
Other liabilities	(329)	1,439	(287)
Net cash provided by operating activities	9,703	8,724	10,700
INVESTING ACTIVITIES:			
Principal collected on:			
Mortgage-backed securities available for sale	12,060	10,290	6,541
Mortgage-backed securities held to maturity	198	277	437
Collateralized mortgage obligations			
Agency securities available for sale			
Loans originated, net of repayments	(12,471)	(30,527)	(42,800)
Purchases of:			
Loans receivable			
Investment securities held to maturity	(577)	(494)	(2,328)
Investment securities available for sale	(25,177)	(32,158)	(50,013)
Office properties and equipment	(362)	(661)	(643)
Federal Home Loan Bank stock	(50)	(82)	
Life insurance contracts			
Proceeds from sales of:			
Federal Home Loan Bank stock	225	363	70
Investment securities available for sale		1,290	

Premise owned			
Real estate owned	902	720	1,573
Proceeds from maturities and calls of:			
Investment securities held to maturity	494	2,328	9,143
Investment securities available for sale	11,200	38,000	20,032
Mortgage-backed securities available for sale			
Cash used for acquistion, net of cash acquired			
Net cash used in investing activities	(13,558)	(10,654)	(57,988)

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OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

	Years Ended December 31,		
	2015	**2014**	**2013**
FINANCING ACTIVITIES:			
Increase (decrease) in deposits	$ 24,955	$ 6,398	$ (21,112)
Advances from Federal Home Loan Bank, net	(5,000)		
Dividends paid	(1,514)	(1,616)	(1,667)
Purchase of shares by deferred compensation plans trust	(175)	(22)	(24)
Purchase of treasury stock	(3,608)	(7,473)	(966)
Stock options exercised	3,275	67	436
Unallocated ESOP dividends applied to ESOP loan	71	86	87
Decrease in advances from borrowers for taxes and insurance	565	324	(6)
Redemption of junior subordinated debt	(7,311)	(3,146)	(5,263)
Net cash provided by (used in) financing activities	11,258	(5,382)	(28,515)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,403	(7,312)	(75,803)
CASH AND CASH EQUIVALENTS Beginning of period	80,307	87,619	163,422
CASH AND CASH EQUIVALENTS End of period	$ 87,710	$ 80,307	$ 87,619
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the period for:			
Interest	$ 6,892	$ 7,653	$ 8,690
Income taxes	$ 4,530	$ 2,684	$ 2,572
SUPPLEMENTAL DISCLOSURES OF NON-CASH ITEMS			
Transfers of loans to real estate owned	$ 2,126	$ 872	$ 1,165

See notes to consolidated financial statements.

OCEAN SHORE HOLDING CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts presented in the tables, except share and per share amounts, are in thousands)

1. NATURE OF OPERATIONS

Ocean Shore Holding Co. (Company) is the holding company for Ocean City Home Bank (Bank), a federally chartered savings bank. The Company is a unitary savings and loan holding company and conducts its operations primarily through the Bank. The Bank has three active subsidiaries, Seashore Financial Services, LLC, which receives commissions from referrals of insurance products, OCHB Preferred Corp, a New Jersey real estate investment trust and OCHB Investment Corp, a Delaware investment company.

The Bank s market area consists of Atlantic and Cape May counties, New Jersey. Through a eleven-branch network, the Bank operates as a retail banking concern in the communities of Ocean City and Marmora within Cape May County, and Linwood, Ventnor, Margate, Mays Landing, Egg Harbor Township and Galloway Township within Atlantic County. The Bank is engaged in the business of attracting time and demand deposits from the general public, small businesses and municipalities, and investing such deposits primarily in residential mortgage loans, consumer loans and small commercial loans.

The Company s outstanding common stock is traded on NASDAQ Global Select Market under the symbol OSHC . The Bank is subject to regulatory supervision and examination by the Office of the Comptroller of the Currency (the OCC), its primary regulator, and the Federal Deposit Insurance Corporation (the FDIC) which insures its deposits. The Bank is a member of and owns capital stock in the Federal Home Loan Bank (the FHLB) of New York, which is one of the twelve regional banks that comprise the FHLB System.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements of the Company include the accounts of the Bank and its subsidiaries Seashore Financial LLC, OCHB Preferred Corp and OCHB Investment Corp and are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company s consolidated financial statements relate to the allowance for loan losses, other-than-temporary-impairment on investment securities, goodwill and intangible impairment, deferred income taxes and the fair value measurements of financial instruments. Actual results could differ from those estimates under different assumptions and conditions, and the differences may be material to the consolidated financial statements.

Subsequent Events All material events that occurred after the date of the consolidated financial statements and before the consolidated financial statements were issued have been either recognized in the consolidated financial statements or disclosed in the Notes to the Consolidated Financial Statements. The Company evaluated events from the date of the consolidated financial statements on December 31, 2015 through the issuance of those consolidated financial statements included in this Annual Report on Form 10-K.

Segment Information In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) FASB ASC 280, *Segment Reporting* (FASB ASC 280), the Company has one reportable operating segment, Community Banking. All of the Company s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings, and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Business Combinations The Company records the net assets of companies that are acquired at their estimated fair value at the date of acquisition, and includes the results of operations of the acquired companies in the Consolidated Income Statement from the date of acquisition. The Company recognizes, as goodwill, the excess of the acquisition price over the estimated fair value of the net assets acquired.

Treasury Stock From time to time the Company may choose to reacquire some of its outstanding stock from its shareholders for retirement or resale. Common stock reacquired by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders equity equal to the cost of purchase.

The Company held 904,532 shares in treasury stock at a cost of $12.7 million at December 31, 2015 and 914,246 shares at a cost of $12.7 million at December 31, 2014.

During 2015, the Company repurchased 246,958 shares of the Company s outstanding common stock for $3.6 million at a weighted average cost of $14.61 per share. Additionally, 256,672 shares were issued from treasury stock for exercised stock options totaling $3.3 million.

Concentration of Credit Risk The majority of the Company s loans are secured by 1 to 4 family real estate or made to businesses in Atlantic or Cape May Counties, New Jersey.

Investment Securities The Company s debt and equity securities include both those that are held to maturity and those that are available for sale. The purchase and sale of the Company s debt securities are recorded as of the trade date. At December 31, 2015 and 2014, the Company had no unsettled purchases or sales of investment securities. The following provides further information on the Company s accounting for debt securities:

a. *Held to Maturity* Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

b. *Available for Sale* Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments, are classified as available for sale. These securities are carried at estimated fair value. Fair values are based on quoted prices for identical assets in active markets, quoted prices for similar assets in markets that are either actively or not actively traded, or, in some cases where there is limited activity or less transparency around inputs, internally developed discounted cash flow models. Unrealized gains and losses that are not concluded to be other than temporary, are excluded from earnings and are reported net of tax in other comprehensive income. Upon the sale of securities, any unamortized premium or unaccreted discount is considered in the determination of gain or loss from the sale. Realized gains and losses on the sale or call of investment securities are recorded as of the trade date, reported in the Consolidated Statements of Income and Comprehensive Income and determined using the adjusted cost of the specific security sold or called. The Company had no sales of securities for the year ended December 31, 2015 and sold $1.3 million of available for sale securities realizing a gain on sale of $84 thousand for the year ended 2014.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 325-40, *Beneficial Interests in Securitized Financial Assets*, and FASB ASC 320-10, *Investments Debt and Equity Securities*, the Company evaluates its debt securities portfolio for other-than-temporary impairment (OTTI) throughout the year. Each investment that has a fair value less than the book value is reviewed on a quarterly basis by management. Management considers at a minimum the following factors that, both individually or in combination, could indicate that the decline is other-than-temporary: (a) the Company has the intent to sell the security; (b) it is more likely than not that it will be required to sell the security before recovery; and (c) the Company does not expect to recover the entire amortized cost basis of the security. An impairment charge is recorded if, based on the review described above, management concludes that the decline in value is other-than-temporary. Among the factors that are considered in determining intent is a review of capital adequacy, interest rate risk profile and liquidity at the Company. The guidance allows the Company to bifurcate the impact on securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors, when the security is not otherwise intended to be sold or is not required to be sold. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The portion of the fair value decline not attributable to credit loss is recognized through other comprehensive income. For securities accounted for under FASB ASC 320-10, the credit loss component is determined by comparing the present value of the cash flows expected to be collected, discounted at the effective interest rate implicit in the security at the date of acquisition, with the amortized cost basis of the debt security. For securities accounted for under FASB 325-40, if the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is greater than the present value of the current estimate of cash flows expected to be collected, the difference is considered to be the credit loss component. For all securities, the Company s expected cash flow estimates include assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the bond indenture and other factors, The Company did not record any OTTI for the years ended December 31, 2015, 2014 and 2013.

Other investments include the Company s investment in the stock of the Federal Home Loan Bank (FHLB) of New York. Although FHLB stock is an equity interest in an FHLB, it does not have a readily determinable fair value, because its ownership is restricted and it is not readily marketable. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLBs or to another member institution. Accordingly, FHLB stock is carried at cost. The Company evaluates this investment for impairment on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Deferred Loan Fees The Bank defers all loan origination fees, net of certain direct loan origination costs. The balance is accreted into income as a yield adjustment over the life of the loan using the level-yield method. Deferred loan fees are recorded as a component of Loans net in the statement of financial condition.

Unearned Discounts and Premiums Unearned discounts and premiums on loans, investments and mortgage-backed securities purchased are accreted and amortized, respectively, over the estimated life of the related asset using the interest method.

Office Properties and Equipment Net Office properties and equipment are recorded at cost. Depreciation is computed using the straight-line method over the expected useful lives of the related assets as follows: buildings and improvements, ten to thirty nine years or at the lesser of the life of improvement or the lease; furniture and equipment, three to seven years. The costs of maintenance and repairs are expensed as incurred, and renewals and betterments are capitalized.

Real Estate Owned Real estate owned is comprised of property acquired through foreclosure, in lieu of deed and bank property that is not in use. The property acquired through foreclosure is carried at the lower of the related loan balance or fair value of the property based on an appraisal less estimated cost to dispose. Losses arising from foreclosure transactions are charged against the allowance for loan losses. Bank property is carried at the lower of cost or fair value less estimated cost to dispose. Costs to maintain real estate owned and any subsequent gains or losses are included in the Company s Consolidated Statements of Operations.

Bank Owned Life Insurance The Company has purchased life insurance policies on certain key employees. The Bank is the primary beneficiary of insurance policies on the lives of officers and employees of the Bank. These policies are recorded at their cash surrender value and the Bank has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the consolidated statements of income. The cash surrender value of the insurance policies is recorded as an asset in the statements of financial condition. The Company accounts for split dollar life insurance in accordance with FASB ASC 715-60, *Defined Benefit Plans Other Post-Retirement*. The guidance provides for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement.

Loans held for investment Loans are reported net of loan origination fees, direct origination costs and discounts and premiums associated with purchased loans and unearned income. Interest on loans is credited to income as it is earned. Loan origination fees and certain direct loan origination costs are deferred and recognized as adjustments to interest income in the Consolidated Statements of Operations over the contractual life of the loan utilizing the effective interest rate method. Premiums and discounts associated with loans purchased by the Bank are deferred and amortized as adjustments to interest income utilizing the effective interest rate method.

Certain loans acquired that result in recognition of a discount attributable, at least in part, to credit quality, and are not subsequently accounted for at fair value, are accounted for under the receivable topic of the FASB Accounting Standards Codification Section 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The excess of the estimated undiscounted principal, interest and other cash flows expected to be collected over the initial investment in the acquired loans is amortized to interest income over the expected life of the loans through the effective interest rate method. The amount amortized for the acquired loan pool is adjusted when there is an increase or decrease in the expected cash flows. Further, the Company assesses impairment on these acquired loan pools for which there has been a decrease in the expected cash flows. Impairment is measured based on the present value of the expected cash flows from the loan (including the estimated fair value of the underlying collateral), discounted using the loan s effective interest rate.

Loans are considered past due 16 days or more past the due date. Loans are considered delinquent if 30 days or more past due. Loans over 90 days past due are placed on non-accrual status. Payments received on non-accrual loans are applied to principal, interest and escrow on mortgage loans and to accrued interest followed by principal on all other loans. Loans are returned to accrual status when no payment is over 90 days past due. Unsecured loans are charged off when becoming more than 90 days past due. Secured loans are charged off to the extent the loan amount exceeds the appraised value of the collateral when over 90 days past due and management believes the uncollectability of the loan balance is confirmed.

A loan is determined to be impaired and non-accrual when, based upon current information and events, it is probable that scheduled payments of principal and interest will not be received when due according to the contractual terms of the loan agreement. An insignificant delay (e.g., less than 90 days) or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

When a loan is placed on non-accrual status, all accrued yet uncollected interest is reversed from income. Payments received on non-accrual loans are generally applied to the outstanding principal balance. Interest income on impaired loans other than nonaccrual loans is recognized on an accrual basis. Interest income on nonaccrual loans is recognized only as collected.

Troubled debt restructurings (TDRs) are loans that have been modified whereby the Company has agreed to make certain concessions to customers to both meet the needs of the customers and maximize the ultimate recovery of the loan. TDRs occur when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified involving a concession that would otherwise not be granted to the borrower. TDRs are generally placed on non-accrual status until the Company believes repayment under the revised terms is reasonably assured and a sustained period of repayment performance has been achieved (typically defined as six months for a monthly amortizing loan). All costs incurred by the Company in connection with a TDR are expensed as incurred. The TDR classification will remain on the loan until it is paid in full or liquidated.

Impaired loans are defined as all TDRs plus non-accrual loans. In addition, the Company may perform a specific reserve analysis on loans where based on management s judgment the nature of the collateral or business conditions warrant such an analysis.

Allowance for Loan Losses The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to results of operations based on management s evaluation of the estimated losses that have been incurred in the Company s loan portfolio. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are the following: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses. Such agency may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairment based upon an evaluation of known and inherent risk in the loan portfolio as of the balance sheet date.

Management monitors its allowance for loan losses monthly and makes adjustments to the allowance through the provision for loan losses as economic conditions and other pertinent factors indicate. The quarterly review and adjustment of the qualitative factors employed in the allowance methodology and the updating of historic loss experience allow for timely reaction to emerging conditions and trends. In this context, a series of qualitative factors such as historical loss experience, trends in delinquency and non-performing loans, changes in risk composition and underwriting standards, experience and ability of staff and regional and national economic conditions and trends are used in a methodology as a measurement of how current circumstances are affecting the loan portfolio.

In determining the allowance for loan losses, management has established both general pooled and specific allowances. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for performing loans (general pooled allowance). The amount of the specific allowance is determined through a loan-by-loan analysis of non-performing loans. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on qualitative and quantitative factors described above. In determining the appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios, and external factors. If a loan is identified as impaired and is collateral dependent, an appraisal is obtained to provide a base line in determining whether the carrying amount of the loan exceeds the net realizable value. We recognize impairment through a provision estimate or a charge-off is recorded when management determines we will not collect 100% of a loan based on foreclosure of the collateral, less cost to sell the property, or the present value of expected cash flows.

As changes in our operating environment occur and as recent loss experience fluctuates, the factors for each category of loan based on type and risk rating will change to reflect current circumstances and the quality of the loan portfolio. Given that the components of the allowance are based partially on historical losses and on risk rating changes in response to recent events, required reserves may trail the emergence of any unforeseen deterioration in credit quality.

Goodwill and Core Deposit Intangibles Goodwill is the excess of the purchase price over the fair value of the tangible and identifiable intangible assets and liabilities of companies acquired through business combinations accounted for under the purchase method. Core deposit intangibles are a measure of the value of checking, savings and other-low cost deposits acquired in business combinations accounted for under the purchase method. Core deposit intangibles are amortized over the estimated useful lives of the existing deposit relationships acquired, but not exceeding 15 years. The Company evaluates the identifiable intangibles for impairment when an indicator of impairment exists, but not less than annually. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives.

Goodwill is not amortized on a recurring basis, but rather is subject to periodic impairment testing. Management performs an annual goodwill impairment test and whenever events occur or circumstances change that indicates the fair value of a reporting unit may be below its carrying value.

The Company performed goodwill impairment testing as of August 1, 2015 and 2014 and concluded that goodwill was not impaired. The Company did not have any indefinite-lived intangible assets as of December 31, 2015.

Loans Held for Sale and Loans Sold The Bank originates mortgage loans held for investment and for sale. At origination, the mortgage loan is identified as either held for sale or for investment. Mortgage loans held for sale are carried at the lower of cost or forward committed contracts (which approximates market), determined on a net aggregate basis. The Bank had no loans classified as held for sale at December 31, 2015 and 2014. The Bank did not sell any loans in 2015 or 2014.

Income Taxes The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes.* FASB ASC 740 requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. 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 bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income as well as judgments about availability of capital gains. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. Further, an inability to employ a qualifying tax strategy to utilize our deferred tax asset arising from capital losses may give rise to an additional valuation allowance. An increase in the valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings. FASB ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. When applicable, we recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statement of income. Assessment of uncertain tax positions under FASB ASC 740 requires careful consideration of the technical merits of a position based on management s analysis of tax regulations and interpretations. Judgment may be involved in applying the requirements of FASB ASC 740.

Our adherence to FASB ASC 740 may result in increased volatility in quarterly and annual effective income tax rates, as FASB ASC 740 requires that any change in judgment or change in measurement of a tax position taken in a prior period be recognized as a discrete event in the period in which it occurs. Factors that could impact management s judgment include changes in income, tax laws and regulations, and tax planning strategies.

Interest Rate Risk The Bank is engaged principally in providing first mortgage loans to borrowers. At December 31, 2015 and 2014, approximately two-thirds of the Bank s assets consisted of assets that earned interest at fixed interest rates. Those assets were funded with long-term fixed rate liabilities and with short-term liabilities that have interest rates that vary with market rates over time. The shorter duration of the interest-sensitive liabilities indicates that the Bank is exposed to interest rate risk because, in a rising rate environment, liabilities will be repricing faster at higher interest rates, thereby reducing the market value of long-term assets and net interest income.

Earnings Per Share Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents, based upon the treasury stock method using an average market price of common shares sold during the period.

Other Comprehensive Income (Loss) The Company classifies items of other comprehensive income (loss) by their nature and displays the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in capital in the equity section of the Consolidated Statements of Financial Condition. Amounts categorized as other comprehensive income (loss) represent net unrealized gains or losses on investment securities available for sale and post-retirement benefits, net of tax of $781 thousand. Reclassifications are made to avoid double counting in comprehensive income (loss) items which are displayed as part of net income for the period. There are no reclassifications during the period ending December 31, 2015. Reclassification adjustments recognized in Accumulated Other Comprehensive Income during the period ending December 31, 2014 are as follows:

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	Accumulated Other Comprehensive Income (Loss) Year Ended December 31, 2014		
	Pre-tax	Tax	After-tax
Unrealized holding loss on securities available for sale during the period	$ (2,184)	$ 841	$ (1,343)
Reclassification adjustment for net gains included in net income	95	(34)	61
Net unrealized loss on securities available for sale	$ (2,089)	$ 807	$ (1,282)

The following table presents the changes in Accumulated Other Comprehensive Income (Loss) by component as of December 31, 2015 and 2014.

	Accumulated Other Comprehensive Income (Loss) Year Ended December 31, 2015		
	Unrealized Gains (Loss) on AFS Securities	Unrealized Loss on Post Retirement Life	Accumulated Other Comprehensive Income
Beginning balance	$ (1,282)	$ (169)	$ (1,451)
Current-period change	53	36	89
Tax Benefit	(26)		(26)
Ending Balance	$ (1,255)	$ (133)	$ (1,388)

	Year Ended December 31, 2014		
	Unrealized Gains (Loss) on AFS Securities	Unrealized Loss on Post Retirement Life	Accumulated Other Comprehensive Income
Beginning balance	$ (2,761)	$ (10)	$ (2,771)
Current-period change	2,402	(159)	2,243
Tax Benefit	(923)		(923)
Ending Balance	$ (1,282)	$ (169)	$ (1,451)

Stock Based Compensation Stock-based compensation is accounted for in accordance with FASB ASC 718, *Compensation Stock Compensation*. The Company establishes fair value for its equity awards to determine their cost. The Company recognizes the related expense for employees over the appropriate vesting period, or when applicable, service period. However, consistent with the stock compensation topic of the FASB Accounting Standards Codification, the amount of stock-based compensation recognized at any date must at least equal the portion of the grant date value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. In accordance with FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, the compensation expense for non-employees is recognized on the grant date, or when applicable, the service period.

The Company s 2005 and 2010 Equity-Based Incentive Plans (the Equity Plans) authorize the issuance of shares of common stock pursuant to awards that may be granted in the form of stock options to purchase common stock (options) and awards of shares of common stock (stock awards). The purpose of the Equity Plans is to attract and retain personnel for positions of substantial responsibility and to provide additional incentive to certain officers, directors, advisory directors, employees and other persons to promote the success of the Company. Under the Equity Plans, options expire ten years after the date of grant, unless terminated earlier under the option terms. A committee of non-employee directors has the authority to determine the conditions upon which the options granted will vest. Options are granted at the then fair market value of the Company s stock.

Determining the fair value of stock-based awards at measurement date requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company s stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company s consolidated financial statements.

In accordance with FASB ASC 718, the fair value of the stock options granted is estimated on the date of the grant using the Black-Scholes option pricing model which uses the assumptions noted in the table below. Stock options have been historically granted a for a 10 year term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term of the option is the estimated time the option will be exercised. The expected volatility is based on the historical volatility of the Company s stock price.

The Equity Plans authorize the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price equal to the fair market value of the common stock on the grant date. Options will generally become vested and exercisable at the rate of 20% per year over five years. A total of 380,407 shares of common stock have been approved for issuance pursuant to the grant of stock options under the Equity Plans. At December 31, 2015, 1,040 options issued in 2013, 1,200 options granted in 2011, 20,620 options issued in 2010, 3,524 options issued in 2007, 3,520 options issued in 2006 and 54,100 options issued in 2005 have been forfeited. At December 31, 2015, 313,087 shares have been issued upon the exercise of stock options. No options were granted in 2015 or 2014.

Common Stock Acquired for Employee Benefit Plans Unearned ESOP shares are not considered outstanding for calculating net income per common share and are shown as a reduction of stockholders equity and presented as Common Stock Acquired for Employee Benefit Plans. During the period the ESOP shares are committed to be released, the Company recognizes compensation cost equal to the fair value of the ESOP shares. When the shares are released, Common Stock Acquired for Employee Benefit Plans is reduced by the cost of the ESOP shares released and the differential between the fair value and the cost is charged/credited to additional paid-in capital. The loan receivable from the ESOP to the Company is not reported as an asset nor is the debt of the ESOP reported as a liability in the Company s consolidated financial statements. At December 31, 2015 and 2014, unearned ESOP shares totaled 258,233 and 292,500 shares, respectively.

Statement of Cash Flows For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

New Accounting Pronouncements In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure a consensus of the FASB Emerging Issues Task Force, on January 17, 2014.* This ASU clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amended guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, the amended guidance requires interim and annual disclosures of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amended guidance may be applied prospectively or through a modified retrospective approach and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. The adoption of this accounting guidance did not have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which created ASC 606 *Revenue from Contracts with Customers,* superseding the revenue recognition requirements in ASC 605. This ASU requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605. The amendment will be effective for the first reporting period ending after December 15, 2017. Early adoption would be permitted as of the original effective date in ASU 2014-09 which is the first reporting period ending after December 15, 2016. The adoption of the amended guidance is currently being evaluated by the Company.

In June 2014, the FASB issued ASU 2014-11, an amendment to ASC 860 *Transfers and Servicing.* This ASU requires accounting changes for repurchase to maturity and repurchase financing transactions, respectively, which will be accounted for as a secured borrowing agreement on a prospective basis. The ASU also adds additional disclosure requirements related to these transactions. The amendment will be effective for the Company for the first annual period ending after December 15, 2014. The accounting changes for all transactions affected by this amendment will have the impact recorded as a cumulative-effect adjustment to retained earnings on the date of adoption. The adoption of this accounting guidance did not have a material impact on the Company s consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, an amendment to ASC 718 *Compensation-Stock Compensation.* This ASU requires that a performance target that affects vesting, and could be achieved after the requisite service period, be treated as a performance condition. Application of existing guidance in ASC 718, as it relates to awards with performance conditions that affect vesting, should continue to be used to account for such awards. The amendment will be effective for the Company for the first reporting period ending after December 15, 2014. Early adoption is permitted. The adoption of this accounting guidance did not have a material impact on the Company s consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, an amendment to ASC 310-40 *Receivables Troubled Debt Restructurings by Creditors.* This ASU requires that a government-guaranteed mortgage loan be de-recognized, and that a separate other receivable be recognized, upon foreclosure if the three criteria identified in the ASU are met. Upon foreclosure and meeting the three criteria, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) that is expected to be recovered from the guarantor. The amendment will be effective for the Company for the first reporting period ending after December 15, 2014. The Company adopted this amendment in 2014 on a prospective basis. The adoption of this accounting guidance did not have a material impact on the Company s consolidated financial statements.

In August 2014, the FASB also issued ASU 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. This ASU requires management to perform an assessment of going concern and provides specific guidance on when and how to assess or disclose going concern uncertainties. The new standard also defines terms used in the evaluation of going concern, such as substantial doubt. Following application, the Company will be required to perform assessments at each annual and interim period, provide an assessment period of one year from the issuance date, and make disclosures in certain circumstances in which substantial doubt is identified. The amendment will be effective for the Company for the first reporting period ending after December 15, 2016. Earlier application is permitted. The Company does not expect this ASU to have an impact on its financial position, result of operations, or disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment requires that 1) equity investments, except those accounted for under the equity method of accounting or result in consolidation of the investee, be measured at fair value with changes in the fair value being recorded in net income, unless those equity investments do not have readily determinable fair values in which case they will be measured at cost less impairment, if any, plus the effect of changes resulting from observable price transactions in orderly transactions or for the identical or similar investment of the same issuer, 2) simplifies the impairment assessment of equity instruments that do not have readily determinable fair values, 3) eliminates the requirement to disclose methods and assumptions used to estimate fair value of instruments measured at amortized cost on the balance sheet, 4) requires public entities to use exit price when measuring the fair value of financial instruments, 5) requires entities to separately present in other comprehensive income the portion of the total change in fair value of a liability resulting from instrument-specific credit risk when the fair value option has been elected for that liability, 6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes, and 7) clarifies that an entity should evaluate the need for a valuation allowance on its deferred tax asset related to its available-for-sale securities in combination with its other deferred tax assets. This amendment will be effective for the Company for the first reporting period beginning after December 15, 2017, with earlier adoption permitted by public entities on a limited basis. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values which should be applied prospectively. Earlier application is permitted. The Company is in the process of evaluating the impacts of the adoption of this ASU.

3. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Held to Maturity				
Debt Securities Municipal	$ 577	$	$	$ 577
US treasury and government sponsored entity mortgage-backed securities	507	53		560
Totals	$ 1,084	$ 53	$	$ 1,137
Available for Sale				
Debt securities:				
Corporate	$ 9,660	$ 26	$ (842)	$ 8,844
US treasury and federal agencies	10,033	7		10,040
Equity securities	3	39		42
US treasury and government sponsored entity mortgage-backed securities	94,248	223	(1,489)	92,982
Totals	$ 113,944	$ 295	$ (2,331)	$ 111,908

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Held to Maturity				
Debt Securities Municipal	$ 494	$	$	$ 494
US treasury and government sponsored entity mortgage-backed securities	707	77		784
Totals	$ 1,201	$ 77	$	$ 1,278
Available for Sale				
Debt securities:				
Corporate	$ 9,596	$ 99	$ (856)	$ 8,839
US treasury and federal agencies	21,223	6	(238)	20,991
Equity securities	3	25		28
US treasury and government sponsored entity mortgage-backed securities	81,383	278	(1,403)	80,258
Totals	$ 112,205	$ 408	$ (2,497)	$ 110,116

As of December 31, 2015 and 2014, the Company had investment securities available for sale with an estimated fair value of $97.9 million and $105.1 million, respectively, pledged as collateral to secure public fund deposits. The decrease in held to maturity investment in 2015 from 2014 resulted from municipal maturities and principal repayments received on mortgage-backed securities.

The Company s municipal bond portfolio consists of unrated general obligation bonds of local municipalities maturing in less than one year.

The following table provides the gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

	December 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Debt securities:						
Corporate	$	$	$ 2,843	$ (842)	$ 2,843	$ (842)
US treasuries and federal agencies						
US Treasury and government sponsored entity mortgage-backed securities	20,704	(217)	51,821	(1,272)	72,525	(1,489)
Totals	$ 20,704	$ (217)	$ 54,664	$ (2,114)	$ 75,368	$ (2,331)

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Debt securities:						
Corporate	$	$	$ 2,826	$ (856)	$ 2,826	$ (856)
US treasuries and federal agencies	4,990	(5)	9,767	(233)	14,757	(238)
US Treasury and government sponsored entity mortgage-backed securities	10,133	(17)	66,020	(1,386)	76,153	(1,403)
Totals	$ 15,123	$ (22)	$ 78,613	$ (2,475)	$ 93,736	$ (2,497)

Management has reviewed its investment securities as of December 31, 2015 and 2014 and has determined that all declines in fair value below amortized cost are temporary.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The OTTI assessment is a subjective process requiring the use of judgments and assumptions. During the securities-level assessments, consideration is given to (1) the intent not to sell and probability that the Company will not be required to sell the security before recovery of its cost basis to allow for any anticipated recovery in fair value, (2) the financial condition and near-term prospects of the issuer, as well as company news and current events, and (3) the ability to collect the future expected cash flows. Key assumptions utilized to forecast expected cash flows may include loss severity, expected cumulative loss percentage, cumulative loss percentage to date, weighted average FICO and weighted average loan-to-value (LTV), rating or scoring, credit ratings and market spreads, as applicable.

The Company assesses and recognizes OTTI in accordance with applicable accounting standards. Under these standards, if the Company determines that a security in the unrealized loss position is designated to be sold or it is more likely than not that the Company will be required to sell the security prior to recovery of its amortized cost basis, the impairment of such security is concluded to be other than temporary and the entire amount of the unrealized loss will be recorded in earnings. If the Company has not made a decision to sell the security and it does not expect that it will be required to sell the security prior to the recovery of the amortized cost basis but the Company concludes that the entire amortized cost basis of the security will not be recovered, OTTI is concluded to exists and the Company only recognizes currently in earnings the amount of decline in value attributable to credit deterioration, with the remaining component of OTTI is presented in other comprehensive income.

Corporate Debt Securities The Company s investments in corporate debt securities consist of corporate debt securities issued by large financial institutions and single issuer and CDOs backed by bank trust preferred capital securities.

At December 31, 2015 and 2014, two single issuer trust preferred securities have been in a continuous unrealized loss position for 12 months or longer. Those securities have aggregate depreciation of 22.9% from the Company s amortized cost basis. The initial decline of these securities was primarily attributable to depressed market pricing of non-rated issues of trust preferred securities observed during the financial downturn. The unrealized loss position continued to improve, and the current decline of these debt securities is principally attributable to the rising interest rate environment and depressed pricing on lower yielding investments with prolonged maturities, which had an impact for these types of investments. These securities were performing in accordance with their contractual terms as of December 31, 2015 and 2014, and had paid all contractual cash flows since the Company s initial investment. Management believes these unrealized losses are not other-than-temporary based upon the Company s analysis that the securities will perform in accordance with their contractual terms and the Company s intent not to sell these investments for a period of time sufficient to allow for the anticipated recovery of amortized cost, which may be maturity. The Company expects recovery of amortized cost when market conditions have stabilized and that the Company will receive all contractual principal and interest payments related to those investments.

United States Treasury and Government Sponsored Enterprise Mortgage-backed Securities The Company s investments in United States government sponsored enterprise notes consist of debt obligations of the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae). At December 31, 2015, 13 agency and agency mortgage-backed securities had been in a continuous unrealized loss position for 12 months or longer. Those securities had aggregate depreciation of 2.4% from the Company s amortized cost basis. These securities were performing in accordance with their contractual terms as of December 31, 2015, and had paid all contractual cash flows since the Company s initial investment. Management concluded that the decline in value is attributable to rising interest rate environment and depressed pricing on lower yielding investments with prolonged maturities. Management concluded that these unrealized losses are not other-than-temporary. This is based upon the Company s analysis that the securities will perform in accordance with their terms and the Company s intent not to sell or lack of requirement to sell these investments for a period of time sufficient to allow for the anticipated recovery of amortized cost, which may be maturity. The Company expects recovery of amortized cost when market conditions have stabilized and that the Company will receive all contractual principal and interest payments related to those investments.

At December 31, 2014, 15 agency and agency mortgage-backed securities had been in a continuous unrealized loss position for 12 months or longer. Those securities had aggregate depreciation of 2.1% from the Company s amortized cost basis. These securities were performing in accordance with their contractual terms as of December 31, 2014, and had paid all contractual cash flows since the Company s initial investment. Management concluded that the decline in value is attributable to rising interest rate environment and depressed pricing on lower yielding investments with prolonged maturities. Management concluded that these unrealized losses are not other-than-temporary. This is based upon the Company s analysis that the securities will perform in accordance with their terms and the Company s intent not to sell or lack of requirement to sell these investments for a period of time sufficient to allow for the anticipated recovery of amortized cost, which may be maturity. The Company expects recovery of amortized cost when market conditions have stabilized and that the Company will receive all contractual principal and interest payments related to those investments.

The amortized cost and estimated fair value of debt securities available for sale at December 31, 2015 and 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2015			
	Held to Maturity		Available for Sale Securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within 1 year	$ 577	$ 577	$ 5,974	$ 6,001
Due after 1 year through 5 years			33	33
Due after 5 years through 10 years			10,000	10,007
Due after 10 years			3,686	2,844
Total	$ 577	$ 577	$ 19,693	$ 18,885

	December 31, 2014			
	Held to Maturity		Available for Sale Securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within 1 year	$ 494	$ 494	$	$
Due after 1 year through 5 years			5,948	6,047
Due after 5 years through 10 years			11,189	11,190
Due after 10 years			13,683	12,593
Total	$ 494	$ 494	$ 30,820	$ 29,830

Equity securities had a cost of $3 thousand and a fair value of $42 thousand as of December 31, 2015 and a cost of $3 thousand and a fair value of $28 thousand as of December 31, 2014. Mortgage-backed securities had a cost of $94.8 million and a fair value of $93.5 million as of December 31, 2015 and a cost of $82.1 million and a fair value of $81.0 million as of December 31, 2014.

4. LOANS RECEIVABLE NET

Loans receivable consist of the following:

	December 31, 2015	December 31, 2014
Real estate mortgage:		
One-to-four family residential	$ 607,807	$ 587,399
Commercial and multi-family	84,075	89,778
Total real estate mortgage	691,882	677,177
Real estate construction:		
Residential	14,960	16,030
Commercial	3,595	4,141
Total real estate construction	18,555	20,171
Commercial	21,383	22,277
Consumer		
Home equity	51,001	54,279
Other consumer loans	431	377
Total consumer loans	51,432	54,656
Total loans	783,252	774,281
Net deferred loan cost	3,886	3,496
Allowance for loan losses	(3,190)	(3,760)
Net total loans	$ 783,948	$ 774,017

The Bank originates loans to customers primarily in its local market area. The ultimate repayment of these loans is dependent to a certain degree on the local economy and real estate market. The intent of management is to hold loans originated and purchased to maturity.

The Bank originates and purchases both fixed and adjustable interest rate loans. At December 31, 2015 and 2014, the composition of these loans was approximately $579.7 million and $567.6 million, respectively, of fixed rate loans and $203.5 million and $206.7 million, respectively, of adjustable rate loans.

Interest income on loans is accrued based on the contractual interest rate and the principal amount outstanding, except for those loans classified as non-accrual. At December 31, 2015 and December 31, 2014, accrued interest receivable on the Company s loans was $2.3 million and $2.3 million, respectively.

Changes in the allowance for loan losses are as follows:

Years Ended December 31,

	2015	2014	2013
Balance, beginning of year	$ 3,760	$ 4,199	$ 3,997
Provision for loan loss	689	462	757
Charge-offs	(1,259)	(977)	(568)
Recoveries		76	13
Balance, end of year	$ 3,190	$ 3,760	$ 4,199

The provision for loan losses charged to expense is based upon past loan loss experiences, a series of qualitative factors, and an evaluation of losses in the current loan portfolio, including the specific evaluation of impaired loans. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for both pass rated loans (general pooled allowance) and the criticized and classified loans that continue to perform.

Non-performing assets at December 31, 2015 and 2014 consisted of non-accrual loans that amounted to $5.0 million and $5.6 million, respectively, non-accrual troubled debt restructurings of $708 thousand and $694, respectively and real estate owned of $1.8 million and $650 thousand, respectively. The reserve for delinquent interest on loans totaled $337 thousand and $423 thousand at December 31, 2015 and 2014, respectively.

Year-end non-performing assets segregated by class of loans are as follows:

	2015	**2014**
Real estate mortgage		
1-4 family residential	$ 2,597	$ 3,626
Commercial and multi-family	1,580	803
Real estate construction	143	143
Commercial	41	501
Consumer	601	502
Non-accrual loans	4,962	5,575
Troubled debt restructuring, non-accrual	708	694
Total non-performing loans	5,670	6,269
Real estate owned	1,814	650
Total non-performing assets	$ 7,484	$ 6,919

A rollforward of the Company s nonaccretable and accretable yield on loans accounted for under ASU 310-30, Loans and Debts Securities Acquired with Deteriorated Credit Quality, is shown below for the year-ended December 31, 2015:

	Contractual Receivable Amount	**Nonaccretable (Yield) / Premium**	**Accretable (Yield)/Premium**	**Carrying Amount**
Balance at January 1, 2015	$ 44,216	$ (2,540)	$ 542	$ 42,218
Principal Reductions	(5,478)			(5,478)
Charge-offs, net	(117)	117		
Accretion of loan discount (premium)			(116)	(116)
Transfer between nonaccretable and accretable yield				
Settlement Adjustments				
Balance at December 31, 2015	$ 38,621	$ (2,423)	$ 426	$ 36,624

Portfolio segments and classes of financing receivables

U.S. GAAP requires that entities disclose information about the credit quality of their financing receivables at disaggregated levels, specifically defined as portfolio segments and classes of financing receivables based on management s systematic methodology for determining the allowance for credit losses. For this, compared to the financial statement categorization of loans, the Company utilizes an alternate categorization to model and calculate the allowance for credit losses and track the credit quality, delinquency and impairment status of the underlying commercial and consumer loan populations.

In disaggregating its financing receivables portfolio, the Company s methodology begins with the commercial and consumer portfolio segments. The commercial portfolio segment is then disaggregated by line of business distinctions. Real estate includes 1-4 family residential portfolio, Commercial and Multi-Family Real estate, as well as construction loans. Commercial represents the portfolio of small business and commercial and industrial portfolio, and Consumer represents principally secured consumer lending.

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An age analysis of past due loans, disaggregated by class of financing receivables, as of December 31, 2015 and 2014 is as follows:

	30- 59 Days Past Due	60- 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loan Receivables
2015						
Real estate						
1-4 family residential	$ 1,483	$	$ 2,968	$ 4,451	$ 603,356	$ 607,807
Commercial and multi-family			1,580	1,580	82,495	84,075
Construction			143	143	18,412	18,555
Commercial			41	41	21,342	21,383
Consumer	93	21	601	715	50,717	51,432
Total	$ 1,576	$ 21	$ 5,333	$ 6,930	$ 776,322	$ 783,252
2014						
Real estate						
1-4 family residential	$ 2,323	$	$ 4,255	$ 6,578	$ 580,821	$ 587,399
Commercial and multi-family	831		803	1,634	88,144	89,778
Construction			143	143	20,028	20,171
Commercial			501	501	21,776	22,277
Consumer	485	5	567	1,057	53,599	54,656
Total	$ 3,639	$ 5	$ 6,269	$ 9,913	$ 764,368	$ 774,281

Impaired Loans

Impaired loans are generally defined as all TDRs and loans on non-accrual status.

Impaired loans disaggregated by class of financing receivables, excluding purchased impaired loans, are set forth in the following table. No interest income was recognized on impaired loans subsequent to their classification as impaired.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)
2015				
With no related allowance recorded				
Real estate				
1-4 family residential	$ 6,103	$ 6,320	$	$ 153
Commercial and multi-family	1,545	1,545		257
Construction	143	143		143
Commercial	41	41		41
Consumer	1,187	1,187		66
With an allowance recorded				
Real estate				