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# 2019 ANNUAL REPORT TO SHAREHOLDERS

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## DIRECTORS

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**Vincent F. Palagiano**  
Chairman of the Board



**Steven D. Cohn**  
Managing Partner at  
Goldberg & Cohn LLP



**Joseph J. Perry**  
Partner at Marcum LLP



**Michael P. Devine**  
Vice Chairman of the Board



**Patrick E. Curtin**  
Retired former Senior  
Partner at Conway Farrell  
Curtin & Kelly, P.C.



**Kevin Stein**  
Senior Managing Director  
of EJF Capital



**Kenneth J. Mahon**  
President and  
Chief Executive Officer



**Barbara Koster**  
Retired former Senior Vice  
President and Global Chief  
Information Officer for  
Prudential Financial, Inc.



**Omer S. J. Williams**  
Attorney at law



**Rosemarie Chen**  
Human Capital and  
Financial Services Leader  
at Willis Towers Watson



**Kathleen M. Nelson**  
Investment Advisor of  
Bay Hollow Associates  
& Consultant to KMN  
Associates LLC

## EXECUTIVE OFFICERS

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**Kenneth J. Mahon**  
President and  
Chief Executive Officer

**Stuart H. Lubow**  
Senior Executive Vice President  
and Chief Banking Officer

**Avinash Reddy**  
Senior Executive Vice President  
and Chief Financial Officer

**Roberto S. Volino**  
Senior Executive Vice President  
and Chief Operating Officer

**Michael J. Fegan**  
Executive Vice President and  
Chief Technology Officer

**Angela K. Finlay**  
Executive Vice President and  
Chief Human Resources Officer

**Conrad J. Gunther, Jr.**  
Executive Vice President and  
Chief Lending Officer

**Michael A. Perez**  
Executive Vice President and  
Chief Retail Officer

**Christopher J. Porzelt**  
Executive Vice President and  
Chief Risk Officer

**Patricia M. Schaubeck**  
Executive Vice President,  
Secretary and General Counsel

## DEAR SHAREHOLDERS:

As I write this letter to our shareholders, the words of which I am reminded are: hope for the best, prepare for the worst. No one can predict what our economy and our country will look like once the COVID-19 pandemic passes. By this time next year, I sincerely hope it is all behind us.

In the meantime, management's priority in the coming year will be to best position Dime Community Bank to serve our three core constituencies, as articulated in our Mission Statement: *to be the bank of choice for customers, the employer of choice for our associates, and the investment of choice for investors.*

### The Bank of Choice for Customers

*The Best Business Bank in New York*

The pandemic should have made clear to everyone just how important small businesses are to ensure full employment and to support a well-functioning economy. Over the past several years, we have taken numerous steps, including hiring personnel and adding new processes and systems, that have put the bank in a superb position to help our business customers, primarily small and mid-size businesses (generally considered to be those with fewer than 500 employees). In a short span of time, Dime now has one of the most productive Small Business Administration ("SBA") operations in the New York-area. Per a report from the SBA dated February 29, 2020, Dime currently ranks among the top 10 SBA lenders (by dollars of originations) in the New York District.

We are deeply committed to being a source of capital to businesses in our footprint. Since the weekend of April 3, 2020, Dime has processed nearly 1,000 applications for the SBA's Payroll Protection Plan ("PPP"). This initiative is a bank-wide priority and important to me personally; many of our staff are working around the clock and over weekends to ensure we keep credit flowing to businesses. The PPP supplies lifeblood to small businesses and is expected to greatly speed the economy's emergence from this period of distress – we are committed to helping in any way that we can.

When Dime serves small business owners, it also serves the individuals employed by those businesses. That's why we include the word '**Community**' in our name.

The creation of our SBA department was part of a full-service commercial banking platform that was created at Dime three years ago. Commercial lending requires specific expertise and infrastructure. When management and the Board commenced that buildout, we added commercial bankers who had careers full of successful experience in the lending and deposit gathering business, over many credit cycles, in order to improve our margins while sustaining Dime's reputation as a top performer. Now we have the products and services to serve both business and retail customers. To solidify the transformation, in April 2019 we converted our thrift charter to a commercial bank charter. Our associates make it our every day mission to be *the best business bank in New York*.

The commercial bank charter conversion has provided the Bank with the additional business opportunity of accepting municipal deposits. We now have a well-respected team in place to serve municipalities across our footprint and expect to grow deposits from this channel given our reputation for service and balance sheet strength.

Our name, **Dime**, gives us a competitive advantage. In business in New York for over 150 years, the name **Dime** represents a unique, recognizable New York-aligned brand. Through our various commercial bank initiatives, we have broadened our reach, and created a larger base of clientele to serve, all inside the same geography. The five boroughs and Long Island are among the most densely populated areas in the nation and we are proud to consider ourselves one of New York's iconic community banks.

## **The Employer of Choice for Our Associates**

From the commencement of the pandemic, Dime management and the Board were first and foremost concerned about the well-being of our staff members. Our years of business continuity planning enabled our staff to move quickly from their offices to a work-from-home environment. This shift occurred in early March. Extensive preparations for this move were made in the month of February, and as a result bank-wide operations continued seamlessly and uninterrupted throughout. Using our internal intranet-based bulletin board, “DimeConnect”, and an external communications platform, both of which were installed and tested well before the pandemic, our staff was able to continue the experience of being part of the great, team effort that goes on every day at Dime, even while working from home. Over 200 associates, 100% of our non-branch staff, are using remote desktop software to re-create their desktop environment at home.

Protecting our customer-facing staff at our branches presented a unique challenge. Banking was designated by New York State as an essential business; our customers rightfully expected to have physical in-person branch banking services available from Dime. Our experienced and selfless branch staff members made themselves available, and continued to conduct business at each branch where plexiglass barriers existed. The barriers help protect both staff and customers. Individual branches are being periodically taken offline and scrubbed down proactively, in order to take maximum precaution. Of course, in today’s age, mobile and digital banking are the medium of choice for many customers – another platform where Dime excels.

Our employees demonstrate every day that client satisfaction is uppermost in their approach to their jobs. While it may be true that “Quality is Free”, it takes respect for self and respect for others to make quality service a reality. Our team at Dime does that every day – and weekends too.

## **The Investment of Choice for Investors**

Finally, building and maintaining a fortress-like balance sheet, that can withstand economic storms, has always been a hallmark of Dime Community Bank.

Our asset diversification initiatives of the past several years have taken us into new commercial, business and residential lending asset classes. The largest segment within the loan portfolio (approximately 63% at December 31, 2019) remains in multifamily loans. New York City multifamily loans were by far the best performing credits during the financial crisis of 2008. Year after year, Dime had one of the lowest loss rates in the nation. Given the low LTV nature of our multifamily portfolio, we anticipate our track record to continue.

Due to the city’s limited geography, multifamily apartment buildings are the primary form of housing for our population. In addition, New York City will always continue to attract newcomers. Among the reasons are its value as a financial center, the rise of ‘silicon alley’ in its midst, its strategic location, the emergence of the entertainment industry, and often forgotten, it is also a college town. With people, comes the need for housing. And in New York City, that means multifamily housing. Dime has multifamily lending in its DNA. Our employees live here and grew up here. Our borrowers have been with Dime through intergenerational family ownership, across various economic cycles.

In addition, management has built a balance sheet with significant capital strength. We enter this uncertain economic period with an extremely strong capital base. Our Total Risk-Based Capital Ratio is in excess of 15% and ranks amongst the highest of our peer group. Management began preparations for bolstering our capital base as early as December 2019 and successfully issued \$75 million of Preferred Stock in early 2020. The Preferred Stock is a perpetual instrument – meaning that it is a form of permanent equity capital. It seems like a prescient move today, but it was simply the continuation of management’s focus on building a safe and sound institution for the long term.

I am very pleased to report that we are making progress on achieving our strategic plan goals. The level of noninterest bearing deposits, which were stagnant at Dime for many years at approximately 6% of total deposits, now exceed 11% of total deposits. The contribution from non-interest revenue is improving. The small business and residential lending departments are maturing into vibrant, profitable divisions, and have strong synergies with our commercial borrowers and our vibrant branch network. We are optimistic that these trends will continue.

Dime has become a bank that, more than ever, is able to step forward and help our community navigate successfully through the health and economic crises in which we now find our nation and our communities.

I am extremely proud of the team we have put together at Dime. Their commitment to each other and to our customers has been very rewarding to watch.

Now let me share some of our 2019 highlights with you:

### 2019 Strategic Highlights

- (1) **Non-Interest Bearing Deposits:** In 2019, we had exceptionally strong growth in non-interest bearing deposits. On a year-over-year basis, non-interest bearing deposit balances grew by 21%
- (2) **Low-cost commercial-banking deposits:** In 2019, we made significant strides in increasing the contribution of business deposits to our overall deposit mix. Total commercial banking deposits from our Business Banking division, plus our legacy multifamily division, increased by 31% or approximately \$133 million on a year-over-year basis. Commercial banking deposits comprised 13% of total deposits at December 31, 2019, as compared to approximately 10% of total deposits a year ago.
- (3) **Relationship-Based Commercial Loans:** The Business Banking division's loan portfolio crossed the \$1 billion threshold at the end of the second quarter of 2019 and ended the year at \$1.3 billion compared to \$648 million at the end of 2018. This represents 97% year-over-year growth. At December 31, 2019, the Business Banking loan portfolio represented 24% of total loans.
- (4) **CRE Concentration Ratio:** Our efforts to diversify the balance sheet resulted in the Consolidated regulatory CRE concentration ratio dropping to 663% at year-end 2019 versus 703% the prior year.
- (5) **Non-Interest Income:** The Bank has made significant investments in our SBA business, in the development of an interest rate swap program for our commercial clients, and in commercial service fee income generation. We grew annual non-interest income, excluding securities gains and losses, by over 37% on a year-over-year basis.

Dime made quantifiable progress on improving each of the aforementioned 5 “Key Foundational metrics”, upon which our Strategic Plan is built. Positive patterns and trends began to emerge in our financial statements. To conclude, 2019 was an extremely successful year.



Kenneth J. Mahon  
President and Chief Executive Officer



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, 2019

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

(State or other jurisdiction of incorporation or organization)

11-3297463

(I.R.S. employer identification number)

300 Cadman Plaza West, 8<sup>th</sup> Floor, Brooklyn, NY

(Address of principal executive offices)

11201

(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	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value \$0.01 per share	DCOM	The Nasdaq Stock Market, LLC
Preferred Stock, Series A, par value \$0.01 per share	DCOMP	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 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, 2019 was approximately \$587.5 million based upon the \$18.99 closing price on the NASDAQ National Market for a share of the registrant's common stock on June 30, 2019.

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**

\$0.01 Par Value

**Number of shares outstanding at March 12, 2020**

34,406,513

**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 28, 2020 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," "should," "will," "would" and 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 differ 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.

## 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 organized by Dime Community Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on June 26, 1996. On January 24, 2019, the Bank filed an application with the New York Department of Financial Services ("NYSDFS") seeking approval to convert from a New York stock form savings bank to a New York commercial bank (the "Charter Conversion"). Simultaneous with the Charter Conversion application to NYSDFS, the Company filed an application with the Federal Reserve Bank of Philadelphia to delist as a savings and loan holding company and elect to become a bank holding company. Having received all applicable regulatory approvals, on April 25, 2019, the Bank completed the Charter Conversion, and began operating as a New York commercial bank. Simultaneously, the Company began operating as a bank holding company. At December 31, 2019, the significant assets of the Holding Company were the capital stock of the Bank and investments retained by the Holding Company. The liabilities of the Holding Company were comprised primarily of \$115.0 million subordinated notes due in 2027, which become callable commencing in 2022. The Company is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended.

The Bank was originally founded in 1864 as a New York State-chartered mutual savings bank, and operated as a New York State-chartered stock savings bank until April 2019. Effective August 1, 2016, the Bank changed its name from The Dime Savings Bank of Williamsburgh to Dime Community Bank. The new name more accurately reflects the Bank's evolving business model and emphasizes its broader geographic and business reach while retaining the Bank's mission to be in and of the communities it serves, including the virtual online community. 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, 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 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](http://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 relationship-based 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, 2019 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. The majority of the Bank's loans are secured by properties located in its primary lending area, with approximately 79% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan as of December 31, 2019. The Bank also lends in markets that are contiguous to the aforementioned NYC boroughs.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from 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 88.7% of the Bank's loan portfolio at December 31, 2019. 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 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.

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 relationship-based 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 Commercial 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, 2019, 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, and Senior Vice President and Senior Lending Officer of Commercial Lending. 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 \$30 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, 2019 and December 31, 2018 – Loan Portfolio Composition" for details on the Bank's loan portfolio.

#### *Multifamily Residential and Commercial Real Estate Lending*

The majority of the Bank's loan portfolio consists 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, 2019, multifamily residential loans 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 \$1.0 million to \$7.0 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 ("FHLB NY") 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.

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 52.7% and 1.59x, respectively, on all multifamily residential real estate loans originated during the year ended December 31, 2019, and 63.9% and 1.72x, respectively, on commercial real estate loans originated during the year ended December 31, 2019. 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; and (ii) 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 commercial 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 ("NYDFS") 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 owners of these businesses typically provide recourse such that they guarantee the debt. 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.

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, 2019, the C&I portfolio primarily consisted of loans to the following industries: finance and insurance; healthcare and social assistance; real estate rental and leasing; and generally high net worth individuals. As of December 31, 2019, the largest C&I loan was \$30.7 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. During the year ended December 31, 2019, the Residential Lending team originated and retained \$54.0 million of one-to-four family loans, with an average loan size of \$0.75 million. During the year ended December 31, 2019, the Bank originated and sold \$22.7 million of one-to-four family loans.

#### Home Equity and Home Improvement Loans

During the year ended December 31, 2013, the Bank ceased origination of home equity and home improvement loans. 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. The Bank may offer home equity and home improvement loan products under the Residential Lending team during 2020.

#### 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.

### 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.

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 Financial 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 2019 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) all loans over \$500,000 that were scheduled to reprice during the year;
- (8) 30% of all new loan originations during the year;
- (9) 70% of all commercial real estate loans;
- (10) internally criticized and classified loans over \$250,000 plus additionally identified loans;
- (11) all commercial loans over \$1.5 million that were in the lowest three categories of pass loan grade (including Watch list loans);
- (12) all ADC loans;
- (13) all SBA loans;
- (14) all C&I over \$250,000 plus additionally identified loans; and
- (15) all owner-occupied commercial real estate.

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 7 to the Company's Consolidated Financial Statements.

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.

In September 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, referred to as "Current Expected Credit Loss" ("CECL"), which requires that the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current condition, and reasonable and supportable forecasts. This standard requires financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates.

In anticipation of adoption, the Company has established the CECL Subcommittee, a subcommittee of the Loan Loss Reserve Committee to oversee the adoption of ASU 2016-13 on its consolidated financial statements. The Company has licensed a third party model to assist with the measurement of expected credit losses. The CECL Subcommittee has determined loan segments based on credit risk of the loan portfolio, completed data validation, and developed qualitative adjustments. The CECL Subcommittee is in the process of developing and updating internal policies, procedures, and key controls over the calculation of the allowance for credit losses ("ACL"). The Company has also engaged an independent third party vendor which is in the process of reviewing the regression models, assumptions utilized, and validating the model for measuring the expected credit losses. The model validation report has not yet been finalized.

Upon adoption, the Company expects to recognize a one-time cumulative effect change to the allowance for loan losses. The Company is currently estimating that the impact upon adoption of CECL, including off-balance sheet exposures, as well as current economic conditions and forecasts, will not have an impact to the consolidated financial statements based on the Bank's current loan portfolio. The Company estimates that the change in the ACL from the probable incurred allowance for loan losses could be in the range of a decrease of \$2.0 million to an increase of \$2.0 million. Upon completion of the aforementioned items, the Loan Loss Reserve Committee, who has oversight over the implementation of CECL, is expected to finalize and approve the adoption of the standard during the first quarter of 2020.

## **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, 2019 and 2018. The Bank may engage in hedging transactions utilizing derivative instruments with Board approval. During the years ended December 31, 2019 and 2018, 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.

### 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, 2019 and 2018, 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, 2019, 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 and overnight or short-term borrowings from the American Financial Exchange ("AFX"). 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 or capital stock 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 10% 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.

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 AFX, 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.

### Capital Stock Issuance

On February 5, 2020, the Company completed an underwritten public offering of 2,999,200 shares, or \$75.0 million in aggregate liquidation preference, of its 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the “Preferred Stock”), with a liquidation preference of \$25.00 per share. The Company will pay dividends from the original date of issuance, when, as, and if declared by its board of directors, at a fixed rate of 5.50% per annum, payable quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year, beginning on May 15, 2020. The Preferred Stock is perpetual and has no stated maturity. The Company may redeem the Preferred Stock at its option at a redemption price equal to \$25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after February 15, 2025, or within 90 days under certain circumstances.

### **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, 2019:

<u>Direct Subsidiaries of the Bank</u>	<u>Year / State of Incorporation</u>	<u>Primary Business Activities</u>
Boulevard Funding Corp.	1981 / New York	Management and ownership of real estate.
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 Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.)	1997 / New York	Sale of non-FDIC insured investment products. Currently inactive.
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, 2019, the Company had 421 full-time and 36 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.

### 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. For tax years beginning on or after January 1, 2015, the NYS income tax rate applied to the Company apportioned NYS taxable income is 6.5%.

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 commercial bank. It was formerly a NYS-chartered savings bank but converted to a NYS commercial bank charter, effective April 25, 2019. The Holding Company became a bank holding company, rather than a savings and loan holding company, at the same time. 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 a bank holding company, within the meaning of the Bank Holding Company Act of 1956 ("BHCA") and 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 New York.

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 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 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 commercial banks and bank 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.

### Regulation of New York State Chartered Commercial 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 all types of loans including real estate loans secured by residential and commercial real estate, and 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 commercial banks are not generally subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers.

#### 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: 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.

The Basel III Capital Rules provided 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 addressed 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 revised 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 did 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 Holding 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 25 to the consolidated financial statements for a discussion of regulatory matters.

In accordance with the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies have adopted, effective January 1, 2020, a final rule whereby depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9% tier 1 capital to average total consolidated assets, will be eligible to opt into a "Community Bank Leverage Ratio" framework. The alternative framework will first be available for use in the Bank's March 31, 2020 Call Report. Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and will be considered to have met the "well capitalized" ratio requirements under the Prompt Corrective Action statutes. The agencies reserved the authority to disallow the use of the Community Bank Leverage Ratio by a financial institution or holding company based on the risk profile of the organization.

#### 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.

#### 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 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 commercial 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.

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 Commercial 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 commercial 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 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 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.

#### 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 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.

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. At December 31, 2019, there were no loans to directors or executive officers secured by their primary residences. The Holding Company presently prohibits loans to directors and executive officers.

### Enforcement

Under the NYBL, the Superintendent possesses enforcement power over NYS-chartered commercial banks. The NYBL gives the Superintendent authority to order a NYS-chartered 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 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 bank under certain circumstances.

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 insured institutions and 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 the BHCA and the FDIA, the FRB possesses similar authority to bring enforcement actions and impose civil monetary penalties against bank 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 Commercial 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 for institutions of less than \$10 billion in assets 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 for such institutions could range from 1.5 to 30 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.

### 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 addressed 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. In January 2020, the FDIC issued a "Statement on Heightened Cybersecurity Risk" to remind regulated institutions of sound cybersecurity risk management principles. 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.

### 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 \$56.0 million at December 31, 2019. 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 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, 2019 was 1.55%.

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 Holding Company is registered with the FRB as a bank holding company within the meaning of the BHCA. The Holding Company is currently subject to FRB regulations, examination, enforcement and supervision, as well as reporting requirements applicable to bank 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.

The Holding Company’s activities are limited to the activities permissible for bank holding companies, which generally include activities deemed by the FRB to be closely related or a proper incident to banking or managing or controlling banks. A bank holding company that meets certain qualitative criteria may elect to be regulated as a financial holding company and thereby engage in a broader array of financial activities, such as underwriting equity securities and insurance. The Holding Company has not, up to now, elected to be regulated as a financial holding company.

Federal law prohibits a bank holding company from acquiring, directly or indirectly, more than 5% of a class of voting securities of, or all or substantially all of the assets of, another bank or bank holding company, without prior written approval of the FRB. In evaluating applications by bank holding companies to acquire banks, the FRB considers, among other things, the financial and managerial resources and future prospects of the parties, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and needs of the community, competitive factors and compliance with anti-money laundering laws.

The Reform Act codified the FRB’s “source of strength” doctrine applicable to depository institution 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 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. FRB regulations specifically require agency approval for stock repurchases by bank holding companies in certain situations. 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 the BHCA, any company would be required to obtain approval from the FRB before it may obtain “control” of the Holding Company within the meaning of the BHCA. 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 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.

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 and Preferred Stock are registered with the SEC under Section 12(b) of the Exchange Act. They are 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, 2019, the Business Banking division originated \$229.9 million of C&I loans and \$551.6 million of direct-sourced commercial real estate loans. Strategic plans for the year ended December 31, 2020 also include 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.

*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 663% of total risk-based capital at December 31, 2019. Including owner-occupied commercial real estate, the ratio of commercial real estate loans to total risk-based capital ratio would be 703% at December 31, 2019.

If our regulators 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 primarily 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.

*The performance of Bank's multifamily and mixed-use loans could be adversely impacted by regulation.*

Multifamily and mixed-use loans generally involve a greater risk than one-to-four family residential loans because of legislation and government regulations involving rent control and rent stabilization, which are outside the control of the borrower or the Bank, and could impair the value of the security for the loan or the future cash flow of such properties. For example, on June 14, 2019, the State of New York enacted legislation increasing restrictions on rent increases in a rent-regulated apartment building, including, among other provisions, (i) repealing the "vacancy bonus" and "longevity bonus", which allowed a property owner to raise rents as much as 20% each time a rental unit became vacant, (ii) eliminating high rent vacancy deregulation and high-income deregulation, which allowed a rental unit to be removed from rent stabilization once it crossed a statutory high-rent threshold and became vacant, or the tenant's income exceeded the statutory amount in the preceding two years, and (iii) eliminating an exception that allowed a property owner who offered preferential rents to tenants to raise the rent to the full legal rent upon renewal; the new legislation still permits a property owner to charge up to the full legal rent once the tenant vacates. As a result of this new legislation as well as previously existing laws and regulations, it is possible that 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.). 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. Therefore, impaired multifamily and mixed-use loans may be more difficult to identify before they become problematic than residential loans.

*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 FASB has issued a new accounting standard, referred to as CECL, that will be effective for the fiscal year beginning January 1, 2020. This standard 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 CECL framework may require an increase to the allowance for losses depending on the prevailing economic conditions at the time and the results of the statistical models that are designed to project loan losses over the expected life of the loan. The time horizon for projecting these losses is greater under the CECL framework, than the current incurred loss model, potentially resulting in more volatility.

*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.

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 and Preferred 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 and Holding Company are 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 have resulted 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, as a holding company. 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 FDIC.

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, 2019, 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.

*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 of our equity securities is less than that of other larger financial services companies.*

Although the Common Stock and Preferred Stock are listed for trading on the Nasdaq National Exchange, the trading volume of our equity securities is less than that of other, larger financial services companies. This means that our equity securities have 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 or Preferred 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 or Preferred Stock at the volume, prices or times that they desire.

*The Holding Company may reduce or eliminate dividends on its equity securities in the future.*

The Company's ability to pay cash dividends on the Common Stock and Preferred Stock depends upon its results of operations, financial condition, cash requirements, capital levels, alternative investment opportunities, the need to comply with safe and sound banking practices and meet regulatory requirements and expectations, and other factors. Additionally, the Company is subject to contractual restrictions that limit its ability to pay dividends if there is an event of default under such contract, including the instruments governing the Holding Company's long-term debt. There can be no assurance that we will pay dividends, even if the necessary financial conditions are met and if sufficient cash is available for distribution.

*We are 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. 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 value of 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;
- change the Company's market risk profile, requiring changes to our risk and pricing models;
- 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 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 still uncertain.

*Acts of terrorism, severe weather, natural disasters, public health issues and other external events could impact our ability to conduct business.*

Our business is subject to risk from external events that could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause us to incur additional expenses. For example, financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising their operating and communication systems. The metropolitan New York area remains a central target for potential acts of terrorism, including cyber terrorism, which could affect not only our operations but those of our customers. Additionally, there could be sudden increases in electrical, telecommunications or other major physical infrastructure outages, natural disasters, the emergence of widespread health emergencies or pandemics, or events arising from local or larger scale political or social matters, including terrorist acts, and cyber-attacks. Events such as these may become more common in the future and could cause significant damage, such as disrupt power and communication services, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing the repayment of our loans, which could result in the loss of revenue. While the Company has established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

**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, 8<sup>th</sup> Floor, Brooklyn, New York 11201. The Bank maintains its principal office in the Williamsburg section of the borough of Brooklyn. As of December 31, 2019, 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 and Suffolk counties, New York. The Bank also has operations offices located in Manhattan, New York and New Jersey. As of December 31, 2019, the Bank owned eight of these offices, and leased twenty-four. One full-service retail banking office in Brooklyn was subsequently closed in January 2020.

**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, 2019, 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.

## 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, 2020, the Company had approximately 6,000 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, 2019, the Holding Company paid cash dividends on the Common Stock totaling \$20.1 million, representing \$0.56 per outstanding common share. During the year ended December 31, 2018, the Holding Company paid cash dividends on the Common Stock totaling \$20.8 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 2019 in accordance with the approved stock repurchase plan:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs<sup>(1)</sup></u>	<u>Maximum Number of Shares that may Yet be Purchased Under the Programs<sup>(1)</sup></u>
October 2019	60,000	\$ 19.19	60,000	931,750
November 2019	165,500	\$ 19.74	165,500	766,250
December 2019	533,700	\$ 20.49	533,700	232,550

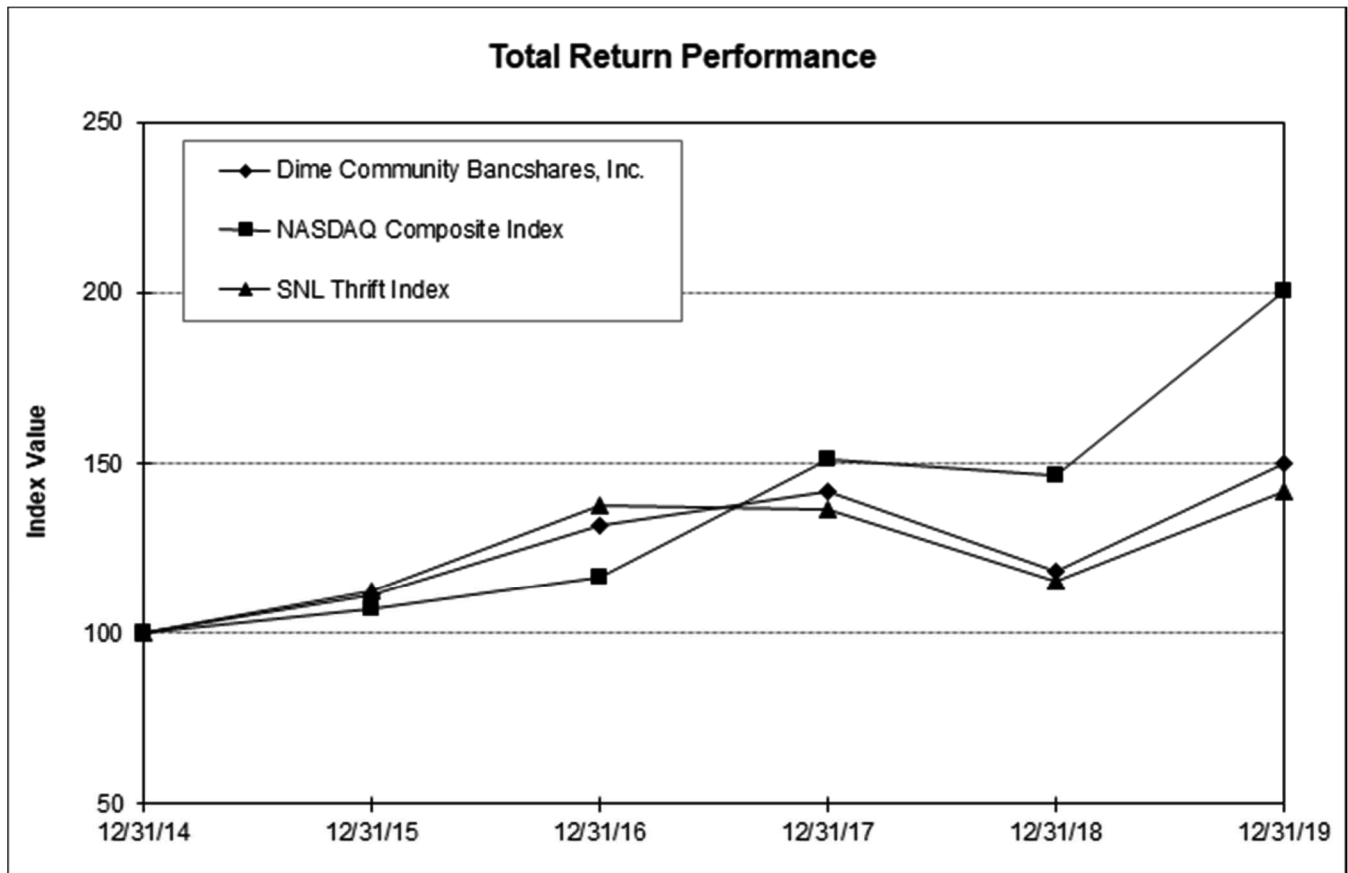
- (1) The thirteenth stock repurchase program was publicly announced in October 2018, authorizing the purchase of up to 1,824,040 shares of Common Stock, and has no expiration date. The thirteenth stock repurchase program was completed in February 2020. The fourteenth stock repurchase program was publicly announced in January 2020, authorizing the purchase of up to 2,636,598 shares of common stock, and has no expiration date.

#### Use of Proceeds

On February 5, 2020, the Company completed an underwritten public offering of 2,999,200 shares, or \$75.0 million in aggregate liquidation preference, of its 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the "Preferred Stock"), with a liquidation preference of \$25.00 per share. The net proceeds received at the time of closing was \$72.6 million. The Company will pay dividends from the original date of issuance, when, as, and if declared by its board of directors, at a fixed rate of 5.50% per annum, payable quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year, beginning on May 15, 2020. The Preferred Stock is perpetual and has no stated maturity. The Company may redeem the Preferred Stock at its option at a redemption price equal to \$25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after February 15, 2025 or within 90 days following a regulatory capital treatment event, as described in the prospectus supplement and accompanying prospectus relating to the offering. The Company has retained the net offering proceeds for general corporate purposes, including support for organic growth.

#### 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, 2014 through December 31, 2019. The graph assumes the reinvestment of dividends in additional shares of the same class of equity securities as those listed below.



**Index**

Dime Community Bancshares, Inc.  
 NASDAQ Composite  
 SNL Thrift Index

	Year Ended December 31,					
	2014	2015	2016	2017	2018	2019
Dime Community Bancshares, Inc.	100.00	111.18	132.08	141.52	118.36	149.78
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
SNL Thrift Index	100.00	112.45	137.74	136.74	115.17	141.80

## Item 6. Selected Financial Data

The consolidated financial and other data of the Company as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 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 have been reclassified to conform to the December 31, 2019, 2018, 2017 and 2016 presentation. These reclassifications were not material.

	<b>At or for the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands, except per share data)</b>				
<b>Selected Financial Condition Data:</b>					
Total assets	\$ 6,354,460	\$ 6,320,578	\$ 6,403,460	\$ 6,005,430	\$ 5,032,872
Loans and loans held for sale (net of deferred costs or fees and the allowance for loan losses)	5,312,597	5,373,133	5,581,084	5,615,886	4,678,262
MBS	502,464	466,605	351,384	3,558	431
Investment securities (including FHLBNY capital stock)	110,444	99,498	66,417	60,670	77,912
Goodwill	55,638	55,638	55,638	55,638	55,638
Deposits	4,282,625	4,356,754	4,403,447	4,395,426	3,184,310
Borrowings	1,316,156	1,239,109	1,283,612	901,805	1,237,405
Stockholders' equity	596,758	602,081	598,567	565,868	493,947
<b>Selected Operating Data:</b>					
Interest income	\$ 238,268	\$ 221,710	\$ 212,096	\$ 195,627	\$ 174,791
Interest expense	90,847	75,384	59,366	52,141	46,227
Net interest income	147,421	146,326	152,730	143,486	128,564
Provision (credit) for loan losses	17,340	2,244	520	2,118	(1,330)
Net interest income after provision (credit) for loan losses	130,081	144,082	152,210	141,368	129,894
Non-interest income	12,168	9,523	21,514	75,934	8,616
Non-interest expense	95,387	86,890	84,986	83,831	62,493
Income before income tax	46,862	66,715	88,738	133,471	76,017
Income tax expense	10,676	15,427	36,856	60,957	31,245
Net income	<u>\$ 36,186</u>	<u>\$ 51,288</u>	<u>\$ 51,882</u>	<u>\$ 72,514</u>	<u>\$ 44,772</u>

**At or for the Year Ended December 31,**

<b>SELECTED FINANCIAL RATIOS AND OTHER DATA</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<sup>(1)</sup>					
Return on average assets	0.57%	0.82%	0.84%	1.31%	0.96%
Return on average stockholders' equity	5.96	8.44	8.94	13.40	9.40
Stockholders' equity to total assets at end of period	9.39	9.53	9.35	9.42	9.81
Loans to deposits at end of period	124.70	123.80	127.22	128.23	147.50
Loans to interest-earning assets at end of period	85.98	87.01	89.20	95.92	95.98
Net interest spread <sup>(2)</sup>	2.12	2.20	2.38	2.52	2.72
Net interest margin <sup>(3)</sup>	2.41	2.41	2.54	2.68	2.89
Average interest-earning assets to average interest-bearing liabilities	119.06	117.47	116.55	116.85	116.64
Non-interest expense to average assets	1.50	1.38	1.37	1.51	1.34
Efficiency ratio <sup>(4)</sup>	59.98	56.14	53.24	55.48	45.98
Effective tax rate	22.78	23.12	41.53	45.67	41.10
Dividend payout ratio	55.45	40.58	40.58	28.43	45.53
<b>Per Share Data:</b>					
Diluted earnings per share	\$ 1.01	\$ 1.38	\$ 1.38	\$ 1.97	\$ 1.23
Cash dividends paid per share	0.56	0.56	0.56	0.56	0.56
Book value per share <sup>(5)</sup>	16.98	16.68	16.00	15.11	13.22
<b>Asset Quality Ratios and Other Data<sup>(1)</sup>:</b>					
Net charge-offs (recoveries)	\$ 10,681	\$ 1,495	\$ 23	\$ 97	\$ (1,351)
Total non-performing loans	11,091	2,345	533	4,237	1,611
OREO	—	—	—	—	148
Non-performing pooled trust preferred securities ("TRUP CDOs")	—	—	—	1,270	1,236
Total non-performing assets	11,091	2,345	533	5,507	2,995
Non-performing loans to total loans	0.21%	0.04%	0.01%	0.08%	0.03%
Non-performing assets to total assets	0.17	0.04	0.01	0.09	0.06
<b>Allowance for Loan Losses to:</b>					
Non-performing loans	256.43%	928.87%	3,946.15%	484.68%	1,149.22%
Total loans <sup>(6)</sup>	0.53	0.40	0.38	0.36	0.39
<b>Regulatory Capital Ratios: (Bank only) <sup>(1)(7)</sup></b>					
Tier 1 common equity ratio	12.85%	13.34%	12.38%	11.60%	11.55%
Tier 1 capital ratio	12.85	13.34	12.38	11.60	11.55
Total risk-based ratio	13.44	13.80	12.83	12.05	12.03
Tier 1 leverage ratio	10.15	10.31	9.32	8.95	9.17
<b>Full Service Branches</b>	29	29	28	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 from the sales of securities and other assets, loan notes, and loan securitization.
- (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.

## 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 2020 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. 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 form savings bank to a New York commercial bank. Simultaneous with the Charter Conversion application to NYSDFS, the Company filed an application with the Federal Reserve Bank of Philadelphia to delist as a savings and loan holding company and elect to become a bank holding company. Having received all applicable regulatory approvals, on April 25, 2019, the Bank completed the Charter Conversion, and began operating as a New York commercial bank. Simultaneously, the Company began operating as a bank holding company.

In February 2020, the Company completed an underwritten public offering of 2,999,200 shares, or \$75.0 million in aggregate liquidation preference, of its 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the "Preferred



Stock”), with a liquidation preference of \$25.00 per share. The Company will pay dividends from the original date of issuance, when, as, and if declared by its board of directors, at a fixed rate of 5.50% per annum, payable quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year, beginning on May 15, 2020. The Preferred Stock is perpetual and has no stated maturity. The Company may redeem the Preferred Stock at its option at a redemption price equal to \$25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after February 15, 2025 or within 90 days following a regulatory capital treatment event, as described in the prospectus supplement and accompanying prospectus relating to the offering.

### **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, 2019, which contains the Company’s significant accounting policies.

The Company’s policies with respect to the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments) is its most critical accounting policy because it is important to the presentation of the Company’s consolidated financial condition and results of operations, involves a significant degree of complexity and requires 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 7 to the Company’s Consolidated Financial Statements.

### **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 income for the years ended December 31, 2019, 2018 and 2017, 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.

**For the Year Ended December 31,**

	2019			2018			2017		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
(Dollars in Thousands)									
Assets:									
Interest-earning assets:									
Real estate loans <sup>(1)(2)</sup>	\$ 5,167,130	\$ 202,110	3.91%	\$ 5,280,735	\$ 194,842	3.69%	\$ 5,778,459	\$ 204,487	3.54%
C&I Loans <sup>(1)</sup>	292,534	15,980	5.46	172,231	9,741	5.66	63,840	3,072	4.81
Other loans	1,370	70	5.11	1,162	74	6.37	1,110	75	6.76
MBS	443,536	12,266	2.77	411,437	10,794	2.62	24,381	542	2.22
Investment securities	63,140	2,252	3.57	11,905	363	3.05	12,404	577	4.64
Other	155,546	5,590	3.59	182,820	5,896	3.23	127,368	3,343	2.62
Total interest-earning assets	<u>6,123,256</u>	<u>\$ 238,268</u>	<u>3.89%</u>	<u>6,060,290</u>	<u>\$ 221,710</u>	<u>3.66%</u>	<u>6,007,562</u>	<u>\$ 212,096</u>	<u>3.53%</u>
Non-interest earning assets	<u>247,162</u>			<u>219,192</u>			<u>204,083</u>		
Total assets	<u>\$ 6,370,418</u>			<u>\$ 6,279,482</u>			<u>\$ 6,211,645</u>		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing checking accounts	\$ 128,276	\$ 251	0.20%	\$ 120,094	\$ 226	0.19%	\$ 113,226	\$ 237	0.21%
Money Market accounts	1,891,153	26,983	1.43	2,294,883	28,383	1.24	2,648,909	23,866	0.90
Savings accounts	341,595	538	0.16	349,989	212	0.06	364,341	187	0.05
CDs	1,585,172	34,307	2.16	1,263,256	21,568	1.71	989,319	14,101	1.43
Borrowed Funds	1,196,871	28,768	2.40	1,130,904	24,995	2.21	1,038,497	20,975	2.02
Total interest-bearing liabilities	<u>5,143,067</u>	<u>\$ 90,847</u>	<u>1.77%</u>	<u>5,159,126</u>	<u>\$ 75,384</u>	<u>1.46%</u>	<u>5,154,292</u>	<u>\$ 59,366</u>	<u>1.15%</u>
Non-interest-bearing checking accounts	426,633			349,217			301,492		
Other non-interest-bearing liabilities	193,769			163,787			175,431		
Total liabilities	<u>5,763,469</u>			<u>5,672,130</u>			<u>5,631,215</u>		
Stockholders' equity	<u>606,949</u>			<u>607,352</u>			<u>580,430</u>		
Total liabilities and stockholders' equity	<u>\$ 6,370,418</u>			<u>\$ 6,279,482</u>			<u>\$ 6,211,645</u>		
Net interest income		<u>\$ 147,421</u>			<u>\$ 146,326</u>			<u>\$ 152,730</u>	
Net interest spread <sup>(3)</sup>			<u>2.12%</u>			<u>2.20%</u>			<u>2.38%</u>
Net interest-earning assets	<u>\$ 980,189</u>			<u>\$ 901,164</u>			<u>\$ 853,270</u>		
Net interest margin <sup>(4)</sup>			<u>2.41%</u>			<u>2.41%</u>			<u>2.54%</u>
Ratio of interest-earning assets to interest-bearing liabilities		<u>119.06%</u>			<u>117.47%</u>			<u>116.55%</u>	

(1) In computing the average balance of loans, non-performing loans have been included.

(2) Interest income on real estate loans includes loan fees. Interest income on real estate loans also includes applicable prepayment fees and late charges totaling \$5.2 million, \$8.2 million and \$5.0 million during the years ended December 31, 2019, 2018 and 2017, respectively.

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

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

### 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.

	<b>Years Ended December 31,</b>					
	<b>2019 over 2018</b>			<b>2018 over 2017</b>		
	<b>Increase/(Decrease) Due to</b>			<b>Increase/(Decrease) Due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
<b>(Dollars in Thousands)</b>						
Interest-earning assets:						
Real Estate Loans	\$ (4,271)	\$ 11,539	\$ 7,268	\$ (17,963)	\$ 8,318	\$ (9,645)
C&I loans	6,694	(455)	6,239	5,672	996	6,668
Other loans	12	(16)	(4)	4	(5)	(1)
MBS	849	623	1,472	9,379	873	10,252
Investment securities	1,695	194	1,889	(20)	(193)	(213)
Other	(922)	616	(306)	1,615	938	2,553
Total	<u>\$ 4,057</u>	<u>\$ 12,501</u>	<u>\$ 16,558</u>	<u>\$ (1,313)</u>	<u>\$ 10,927</u>	<u>\$ 9,614</u>
Interest-bearing liabilities:						
Interest-bearing checking accounts	\$ 14	\$ 11	\$ 25	\$ 13	\$ (24)	\$ (11)
Money market accounts	(5,377)	3,977	(1,400)	(3,840)	8,357	4,517
Savings accounts	(15)	341	326	(9)	34	25
CDs	6,275	6,464	12,739	4,301	3,166	7,467
Borrowed funds	1,541	2,232	3,773	1,957	2,063	4,020
Total	<u>\$ 2,438</u>	<u>\$ 13,025</u>	<u>\$ 15,463</u>	<u>\$ 2,422</u>	<u>\$ 13,596</u>	<u>\$ 16,018</u>
Net change in net interest income	<u>\$ 1,619</u>	<u>\$ (524)</u>	<u>\$ 1,095</u>	<u>\$ (3,735)</u>	<u>\$ (2,669)</u>	<u>\$ (6,404)</u>

### **Comparison of Operating Results for the Years Ended December 31, 2019, 2018, and 2017**

Net income was \$36.2 million in 2019, compared to \$51.3 million in 2018, and \$51.9 million in 2017. During 2019, net interest income increased \$1.1 million, the provision for loan losses increased by \$15.1 million, non-interest income increased by \$2.6 million and non-interest expense increased by \$8.5 million. Income tax expense decreased \$4.8 million in 2019, as a result of \$19.9 million of lower pre-tax income. During 2018, net interest income decreased \$6.4 million, the provision for loan losses increased by \$1.7 million, non-interest income decreased by \$12.0 million and non-interest expense increased by \$1.9 million. Income tax expense decreased \$21.4 million in 2018, as a result of \$22.0 million of lower pre-tax income and the result of the lower tax rates for 2018 from the Tax Act enacted in December 2017.

### Net Interest Income

The discussion of net interest income for 2019, 2018, and 2017 below should be read in conjunction with the tables presented on in the section titled "Analysis of Net Interest Income" on the preceding pages, which set forth certain information related to the consolidated statements of income for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated.

Net interest margin ("NIM") was 2.41% during both 2019 and 2018, and 2.54% in 2017. While NIM was flat in 2019 compared to 2018, NIM was positively impacted by remixing of the Bank's loan portfolio towards more business banking loans, offset by the Company's decision to increase rates on deposit products in order to remain competitive. NIM was negatively impacted in 2018 compared to 2017 primarily as a result of the Company's decision to increase rates in order to remain competitive on its deposit product offerings.

Interest income was \$238.3 million in 2019, \$221.7 million in 2018, and \$212.1 million in 2017. During 2019, interest income increased \$16.6 million from 2018, primarily reflecting increases in interest income of \$7.3 million on real estate loans, \$6.2 million on C&I loans and \$3.4 million on available-for-sale securities. The growth in interest income was driven by an increase of \$63.0 million in average interest-earning assets and a 23 basis point increase in average yield. The increased interest income on real estate loans was driven by a 22 basis point increase in average yield offset by declines of \$113.6 million in their average balance during the comparative period. The increased interest income on C&I loans reflected growth of \$120.3 million in their average balance during the comparative period as a result of the Company's Business Banking initiative to shift the loan portfolio mix and grow the C&I loan portfolio. The increased interest income on available-for-sale securities reflected growth of \$83.3 million in their average balance during the comparative period.

During 2018, interest income increased \$9.6 million from 2017, primarily reflecting increases in interest income of \$6.7 million on C&I loans and \$10.3 million on MBS, offset by a decrease in interest income of \$9.6 million on real estate loans. The growth in interest income was driven by an increase of \$52.7 million in average interest-earning assets and a 13 basis point increase in average yield. The increased interest income on C&I loans reflected growth of \$108.4 million in their average balance during the 2018 period as a result of the Company's Business Banking initiative to shift the loan portfolio mix and grow the C&I loan portfolio. The increased interest income on MBS reflected growth of \$387.1 million in their average balance during the 2018 period primarily as a result of the Loan Securitization that was completed in December 2017.

Interest expense was \$90.8 million in 2019, \$75.4 million in 2018, and \$59.4 million in 2017. During 2019, interest expense increased \$15.5 million from 2018, primarily reflecting increases in expense of \$12.7 million on CDs and \$3.8 million in interest expense on borrowed funds, offset by decreases of interest expense of \$1.4 million on money market accounts. The increases of \$12.7 million in interest expense on CDs was the result of the Company's decision to increase rates in order to remain competitive on its CD product offerings. The average balance of money market accounts decreased by \$403.7 million, primarily due to outflows from the DimeDirect internet channel. Interest expense on borrowings increased \$3.8 million due to an increase in their average balance of \$66.0 million and an increase of 19 basis points in their average cost. During 2018, interest expense increased \$16.0 million from 2017, primarily reflecting increases in expense of \$4.5 million on money market accounts, \$7.5 million on CDs, and \$4.0 million in interest expense on borrowed funds. The increases of \$4.5 million and \$7.5 million in interest expense on money market deposits and CDs, respectively, was the result of the Company's decision to increase rates in order to remain competitive on its deposit product offerings. Interest expense on borrowings increased \$4.0 million due to an increase in their average balance of \$92.4 million and an increase of 19 basis points in their average cost, as the Company increased the borrowings portfolio to include longer term advances, greater than 2 years.

#### Provision (Credit) for Loan Losses

The Company recognized a provision for loan losses of \$17.3 million, \$2.2 million and \$0.5 million in 2019, 2018, and 2017, respectively. The \$17.3 million provision for loan losses recognized during 2019 resulted mainly from charge-offs of \$10.0 million and a \$10.0 million specific reserve on one non-performing C&I relationship, partially offset by a release of reserves due to a reduction of \$481.4 million in multifamily real estate loans. The \$2.2 million provision for loan losses recognized during 2018 resulted mainly from growth in the C&I portfolio in connection with the Company's growth strategy and charge-offs of \$1.2 million on two C&I loans, partially offset by a release of reserves due to a reduction of \$148.6 million of multifamily real estate loans. The \$0.5 million provision for loan losses recognized during 2017 resulted mainly from growth in the real estate and C&I portfolio in connection with the Company's growth strategy, partially offset by a release of reserves due to a reduction of \$280.0 million multifamily real estate loans due to the Loan Securitization in December 2017, and continued improvement in the overall credit quality of the loan portfolio.

The following table sets forth activity in the Bank's allowance for loan losses at or for the dates indicated:

	<b>At or for the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Allowance for loan losses:</b>	<b>(Dollars in Thousands)</b>				
Balance at beginning of period	\$ 21,782	\$ 21,033	\$ 20,536	\$ 18,514	\$ 18,493
Provision (credit) for loan losses	17,340	2,244	520	2,118	(1,330)
Charge-offs:					
Multifamily residential	(83)	(1)	(104)	(92)	(48)
Commercial real estate	(145)	(7)	—	(12)	(44)
One-to-four family including condominium and cooperative apartment	(22)	(169)	(16)	(79)	(115)
Construction	—	—	—	—	—
C&I	(10,447)	(1,329)	—	—	—
Consumer	(8)	(5)	(4)	(3)	(2)
Total charge-offs	<u>(10,705)</u>	<u>(1,511)</u>	<u>(124)</u>	<u>(186)</u>	<u>(209)</u>
Recoveries	24	16	101	90	1,560
Balance at end of period	<u>\$ 28,441</u>	<u>\$ 21,782</u>	<u>\$ 21,033</u>	<u>\$ 20,536</u>	<u>\$ 18,514</u>

#### Non-Interest Income

Total non-interest income was \$12.2 million in 2019, \$9.5 million in 2018, and \$21.5 million in 2017. During 2019, non-interest income increased \$2.6 million from 2018 due primarily to increases in gains on sales of loans by \$1.2 million, service charges and other fees by \$1.2 million and loan level derivative income by \$0.9 million. During 2018, non-interest income decreased \$12.0 million from 2017 due primarily to a gain of \$10.4 million recognized on the sale of real estate during the year ended December 31, 2017.

### Non-Interest Expense

Non-interest expense was \$95.4 million in 2019, \$86.9 million in 2018, and \$85.0 million in 2017. During 2019, the Company recognized non-recurring expenses of \$3.8 million for loss of extinguishment of debt, related to the prepayment of higher-cost FHLBNY borrowings, and \$0.2 million related to a branch consolidation. During 2018, the Company recognized non-recurring expenses of \$0.7 million for expenses related to a workforce reduction. During 2017, the Company recognized non-recurring expenses of \$1.3 million for loss on extinguishment of debt related to the redemption of trust preferred securities and \$1.7 million related to de-conversion costs associated with the planned change in the Bank's core processor. Excluding these items, non-interest expense was \$91.4 million in 2019, \$86.2 million in 2018, and \$82.0 million in 2017. The increase of \$5.3 million during 2019 compared to 2018 was primarily the result of increases of salaries and benefits expense of \$5.9 million, occupancy expense of \$0.7 million, and data processing expense of \$0.8 million, offset by decreases in FDIC insurance premiums of \$1.4 million and marketing expense of \$1.2 million. The \$5.9 million increase in salaries and benefits expense was attributable to the continued build out of the Business Banking division. The \$0.7 million increase in occupancy expense was attributable to additional office space during 2019. The \$1.2 million of lower marketing expense was related to reduced marketing initiatives. The decrease in FDIC insurance premiums of \$1.4 million was mainly the result of the application of an assessment credit from the FDIC as the FDIC's Deposit Insurance Fund Ratio Reserve reached a pre-determined threshold. The increase of \$4.2 million during 2018 compared to 2017 was primarily the result of increases of salaries and benefits expense of \$7.1 million and occupancy expense of \$1.0 million, offset by a decrease in marketing expense of \$2.6 million and a decrease in FDIC insurance premiums of \$1.0 million. The remaining decrease was experienced in other operating expenses. The \$7.1 million increase in salaries and benefits expense was attributable to the continued build out of the Business Banking division, and the Residential Lending group. The \$1.0 million increase in occupancy expense was attributable to a full year of expense related to two additional office locations opened during 2017. The \$2.6 million of lower marketing expense was related to reduced marketing initiatives for DimeDirect, our internet banking channel. The lower FDIC insurance premiums of \$1.0 million was mainly the result of lower FDIC assessment rates.

Non-interest expense as a percentage of average assets was 1.50%, 1.38%, and 1.37% in 2019, 2018, and 2017, respectively. Excluding the non-recurring items mentioned above, the ratio was 1.44% in 2019, higher than 1.37% in 2018, and 1.32% in 2017. The increase during 2019 compared to 2018 was primarily due to the growth in non-interest expense outweighing \$90.9 million of growth in average assets.

### Income Tax Expense

Income tax expense was \$10.7 million in 2019, \$15.4 million in 2018, and \$36.9 million in 2017. Income tax expense decreased \$4.8 million during 2019 compared to 2018 primarily as a result of \$19.9 million of lower pre-tax income during 2019. During 2018, income tax expense decreased \$21.4 million compared to 2017, primarily as a result of \$22.0 million of lower pre-tax income during 2018, and lower tax rates as a result of the passage of the Tax Act.

The Company's consolidated tax rate was 22.8%, 23.1%, and 41.5% in 2019, 2018, and 2017, respectively.

### **Comparison of Financial Condition at December 31, 2019 and December 31, 2018**

Assets totaled \$6.35 billion at December 31, 2019, \$33.9 million above their level at December 31, 2018.

Real estate loans decreased \$160.8 million during the year ended December 31, 2019, primarily due to \$923.1 million of aggregate amortization of real estate loans (including refinancing of existing loans) and \$36.1 million of loan sales. These decreases exceeded the \$798.9 million of originations of such loans (also including refinancing of existing loans). Originations of C&I loans totaled \$229.9 million during the year ended December 31, 2019 exceeding \$103.1 million of aggregate amortization and \$10.0 million of loan sales, in line with the Bank's strategic plans to grow the C&I loan portfolio.

Total securities increased \$48.3 million during the year ended December 31, 2019, as a result of holding increased on-balance sheet liquidity, which will be based on monetary policy, interest rates, the Bank's funding needs, and periodic stress testing analysis.

Total liabilities increased \$39.2 million during the year ended December 31, 2019, primarily as a result of an increase of \$110.0 million in other borrowings and \$44.1 million of operating lease liabilities from the adoption of ASU 2016-02, offset by decreases in deposits of \$74.1 million and FHLBNY advances of \$33.1 million. Please refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the changes in borrowings during the year ended December 31, 2019.

Stockholders' equity decreased \$5.3 million during the year ended December 31, 2019, due primarily to \$20.1 million in cash dividends paid during the period and \$24.2 million of repurchases of Common Stock. Offsetting these items were net income of \$36.2 million and \$1.8 million of stock-based compensation which added to the cumulative balance of stockholders' equity.

### Loan Portfolio Composition

The following table sets forth the composition of the Bank's loan portfolio (excluding loans held for sale) in dollar amounts and percentages at the dates indicated:

<b>At December 31,</b>										
	<b>2019</b>	<b>Percent of Total</b>	<b>2018</b>	<b>Percent of Total</b>	<b>2017</b>	<b>Percent of Total</b>	<b>2016</b>	<b>Percent of Total</b>	<b>2015</b>	<b>Percent of Total</b>
<b>Real Estate loans:</b>										
<b>(Dollars in Thousands)</b>										
Multifamily residential	\$3,379,864	63.41%	\$3,859,996	71.71%	\$4,374,073	78.23%	\$4,592,282	81.59%	\$3,752,328	80.02%
Commercial real estate	1,347,521	25.28	1,167,415	21.68	1,008,299	18.03	958,459	17.03	863,184	18.41
One-to-four family, including condominium and cooperative apartment	146,667	2.75	96,092	1.79	62,709	1.12	74,022	1.32	72,095	1.54
Construction and land acquisition	118,459	2.22	29,386	0.55	9,115	0.16	—	—	—	—
<b>Total real estate loans</b>	<b>4,992,511</b>	<b>93.67</b>	<b>5,152,889</b>	<b>95.73</b>	<b>5,454,196</b>	<b>97.54</b>	<b>5,624,763</b>	<b>99.94</b>	<b>4,687,607</b>	<b>99.97</b>
<b>C&amp;I loans</b>	<b>335,822</b>	<b>6.30</b>	<b>228,793</b>	<b>4.25</b>	<b>135,660</b>	<b>2.43</b>	<b>2,058</b>	<b>0.03</b>	<b>—</b>	<b>—</b>
<b>Consumer loans:</b>										
Depositor loans	416	0.01	556	0.01	489	0.01	445	0.01	557	0.01
Consumer installment and other	1,356	0.03	636	0.01	890	0.02	912	0.02	1,033	0.02
<b>Total consumer loans</b>	<b>1,772</b>	<b>0.03</b>	<b>1,192</b>	<b>0.02</b>	<b>1,379</b>	<b>0.03</b>	<b>1,357</b>	<b>0.03</b>	<b>1,590</b>	<b>0.03</b>
Gross loans	5,330,105	100.00%	5,382,874	100.00%	5,591,235	100.00%	5,628,178	100.00%	4,689,197	100.00%
Net unearned costs	10,433		10,944		10,882		8,244		7,579	
Allowance for loan losses	(28,441)		(21,782)		(21,033)		(20,536)		(18,514)	
<b>Loans, net</b>	<b>\$5,312,097</b>		<b>\$5,372,036</b>		<b>\$5,581,084</b>		<b>\$5,615,886</b>		<b>\$4,678,262</b>	
<b>Loans serviced for others:</b>										
One-to-four family, including condominium and cooperative apartment	\$ 27,143		\$ 5,277		\$ 2,664		\$ 3,453		\$ 4,374	
Multifamily residential	255,757		306,508		334,819		17,625		18,735	
Commercial real estate	36,571		912		—		—		—	
C&I loans	11,538		887		—		—		—	
<b>Total loans serviced for others</b>	<b>\$ 331,009</b>		<b>\$ 313,584</b>		<b>\$ 337,483</b>		<b>\$ 21,079</b>		<b>\$ 23,109</b>	

The following table sets forth the composition of the Bank's loan portfolios (excluding loans held for sale and consumer loans) by ARM or fixed-rate repayment type:

<b>For the Year Ended December 31,</b>										
	<b>2019</b>	<b>Percent of Total</b>	<b>2018</b>	<b>Percent of Total</b>	<b>2017</b>	<b>Percent of Total</b>	<b>2016</b>	<b>Percent of Total</b>	<b>2015</b>	<b>Percent of Total</b>
<b>(Dollars in Thousands)</b>										
<b>Real Estate loans:</b>										
ARM	\$4,124,759	77.41%	\$4,328,268	80.43%	\$4,691,101	83.92%	\$4,746,112	84.35%	\$3,690,424	78.73%
Fixed-rate	867,752	16.29	824,621	15.32	763,095	13.65	878,651	15.62	997,183	21.27
<b>Total real estate loans</b>	<b>4,992,511</b>	<b>93.70</b>	<b>5,152,889</b>	<b>95.75</b>	<b>5,454,196</b>	<b>97.57</b>	<b>5,624,763</b>	<b>99.97</b>	<b>4,687,607</b>	<b>100.00</b>
<b>C&amp;I loans:</b>										
ARM	258,490	4.85	173,624	3.23	93,330	1.67	2,058	0.03	—	—
Fixed-rate	77,332	1.45	55,169	1.02	42,330	0.76	—	—	—	—
<b>Total C&amp;I loans</b>	<b>335,822</b>	<b>6.30</b>	<b>228,793</b>	<b>4.25</b>	<b>135,660</b>	<b>2.43</b>	<b>2,058</b>	<b>0.03</b>	<b>—</b>	<b>—</b>
<b>Total real estate and C&amp;I loans</b>	<b>\$5,328,333</b>	<b>100.00%</b>	<b>\$5,381,682</b>	<b>100.00%</b>	<b>\$5,589,856</b>	<b>100.00%</b>	<b>\$5,626,821</b>	<b>100.00%</b>	<b>\$4,687,607</b>	<b>100.00%</b>

At December 31, 2019, the Bank had \$36.9 million of firm loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2020.

At December 31, 2019, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled \$331.0 million.

Loan Originations, Purchases, Sales and Servicing

The following table sets forth the Bank's loan originations (including loans held for sale), sales, purchases and principal repayments for the periods indicated:

	<b>For the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Gross loans:	<b>(Dollars in Thousands)</b>				
At beginning of period	\$ 5,383,971	\$ 5,591,235	\$ 5,628,178	\$ 4,689,197	\$ 4,113,545
Real estate loans originated:					
Multifamily residential	289,076	262,527	558,764	1,321,242	1,098,841
Commercial real estate	300,737	247,815	183,701	204,720	236,320
One-to-four family, including condominium and cooperative apartment <sup>(1)</sup>	87,875	39,985	1,268	2,468	5,316
Equity lines of credit on multifamily residential or commercial properties	18,913	7,491	5,034	5,547	3,389
Construction and land acquisition	102,271	21,883	9,115	—	—
Total real estate loans originated	798,872	579,701	757,882	1,533,977	1,343,866
C&I loans originated	229,908	174,042	138,643	—	—
Other loans originated	1,999	845	1,070	3,073	1,334
Total loans originated	1,030,779	754,588	897,595	1,537,050	1,345,200
Loans purchased	—	7,800	—	157,782	99,745
Less:					
Principal repayments (including satisfactions and refinances)	1,027,355	962,083	602,052	755,665	859,512
Loans sold <sup>(2)</sup>	46,085	6,058	332,362	—	9,572
Write-down of principal balance for expected loss	10,705	1,511	124	186	209
Gross loans at end of period	<u>\$ 5,330,605</u>	<u>\$ 5,383,971</u>	<u>\$ 5,591,235</u>	<u>\$ 5,628,178</u>	<u>\$ 4,689,197</u>

(1) Includes one-to-four family home equity and home improvement loans.

(2) Includes \$1.4 million, \$1.5 million, \$4.5 million and \$9.6 million of note sales on problem loans from portfolio during the years ended December 31, 2019, 2018, 2017 and 2015, respectively. There were no note sales on problem loans during the year ended December 31, 2016.

In the event that the Bank were to sell loans in the secondary market or through securitization, it generally retains servicing rights on the loans sold. These fees are typically derived based upon the difference between the actual origination rate and contractual pass-through rate of the loans at the time of sale. At December 31, 2019, the Bank had recorded servicing right assets ("SRAs") of \$1.5 million associated with the sale of loans to third party institutions in which the Bank retained the servicing of the loan. The Bank outsources the servicing of a portion of our one-to-four family mortgage loan portfolio to an unrelated third party under a sub-servicing agreement. Fees paid under the sub-servicing agreement are reported as a component of occupancy, equipment and systems expense in the consolidated statements of income.

At December 31, 2019, the Bank had \$136.4 million in unfunded construction loan commitments.

Loan Maturity and Repricing

As of December 31, 2019, \$4.77 billion, or 87.1% of the loan portfolio was scheduled to mature or reprice within five years. In addition at December 31, 2019, loans totaling \$612.1 million were required to make only monthly interest payments on their outstanding principal balance. The great majority of these loans commence principal amortization prior to their contractual maturity date.

The following table distributes the Bank's real estate, C&I, and consumer loan portfolios at December 31, 2019 by the earlier of the maturity or next repricing date. ARMs are included in the period during which their interest rates are next scheduled to adjust. The table does not include scheduled principal amortization.

	<b>Real Estate Loans</b>	<b>C&amp;I Loans</b>	<b>Consumer Loans</b>	<b>Total</b>
	<b>Amount due to Mature or Reprice During the Year Ending:</b>	<b>(Dollars in Thousands)</b>		
December 31, 2020	\$ 690,275	\$ 263,854	\$ 1,772	\$ 955,901
December 31, 2021	1,014,091	1,091	—	1,015,182
December 31, 2022	1,156,438	25,851	—	1,182,289

December 31, 2023	746,914	13,062	—	759,976
December 31, 2024	714,254	15,846	—	730,100
<b>Sub-total (within 5 years)</b>	<u>4,321,972</u>	<u>319,704</u>	<u>1,772</u>	<u>4,643,448</u>
December 31, 2025 and beyond	670,539	16,118	—	686,657
Total	<u>\$ 4,992,511</u>	<u>\$ 335,822</u>	<u>\$ 1,772</u>	<u>\$ 5,330,105</u>

## Asset Quality

### Non-accrual Loans

Within the Bank's loan portfolio (excluding deposit overdraft loans), eleven non-accrual loans totaled \$11.1 million at December 31, 2019 and sixteen non-accrual loans totaled \$2.3 million December 31, 2018. During the year ended December 31, 2019, twelve loans totaling \$24.5 million were placed on non-accrual status, five non-accrual loans totaling \$1.0 million were returned to accrual status, three non-accrual loans totaling \$2.9 million were fully satisfied according to their contractual terms (one of which incurred a partial charge-off of \$0.1 million), four non-accrual loan totaling \$10.3 million were fully or partially charged-off, three non-accrual loans totaling \$1.4 million were sold and principal amortization of \$0.1 million was recognized on five non-accrual loans. The remaining two non-accrual loans had no activity.

### TDRs

There were no TDRs at December 31, 2019. At December 31, 2018, all TDRs were collateralized by real estate that generated rental income. For TDRs that demonstrated conditions sufficient to warrant accrual status, the present value of the expected net cash flows of the underlying property was 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. There were no TDRs on non-accrual status at December 31, 2018.

There were no loans modified in a manner that met the criteria of a TDR during the twelve-month period ended December 31, 2019 or 2018.

### Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 7 to the Company's Consolidated Financial Statements) was \$10.3 million, consisting of four loans, at December 31, 2019, compared to \$6.0 million, consisting of thirteen loans, at December 31, 2018. During the year ended December 31, 2019, ten loans totaling \$24.0 million were added to impaired loans, six impaired loans totaling \$6.8 million were fully satisfied according to their contractual terms (one of which incurred a partial charge-off of \$0.1 million), seven impaired loans totaling \$10.3 million were fully or partially charged-off, three impaired loans totaling \$1.4 million were sold, and principal amortization totaling \$0.2 million was recognized.

The following is a reconciliation of non-accrual, TDR, and impaired loans as of the dates indicated:

	<b>At December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Non-accrual loans<sup>(1)</sup>:</b>	<b>(Dollars in Thousands)</b>				
One-to-four family residential, including condominium and cooperative apartment	\$ 794	\$ 712	\$ 436	\$ 1,012	\$ 1,113
Multifamily residential and residential mixed-use	153	280	—	2,675	287
Commercial real estate and commercial mixed-use	60	1,041	93	549	207
C&I	10,082	309	—	—	—
Consumer	2	3	4	1	4
<b>Total non-accrual loans</b>	<u>11,091</u>	<u>2,345</u>	<u>533</u>	<u>4,237</u>	<u>1,611</u>
Non-accrual one-to-four family and consumer loans deemed homogeneous loans <sup>(2)</sup>	(796)	(715)	(440)	(1,013)	(1,116)



**TDRs<sup>(1)</sup>:**

One-to-four family residential, including condominium and

cooperative apartment	—	14	22	407	598
Multifamily residential and residential mixed-use	—	271	619	658	696
Commercial real estate and commercial mixed-use	—	4,084	7,470	7,624	7,772
<b>Total TDRs</b>	—	4,369	8,111	8,689	9,066
<b>Impaired loans</b>	\$ 10,295	\$ 5,999	\$ 8,204	\$ 11,913	\$ 9,561

- (1) Total non-accrual loans include some loans that were modified in a manner that met the criteria for a TDR. There were no non-accruing TDRs at December 31, 2019, 2018, 2017 or 2016. There were non-accruing TDRs which totaled \$0.2 million at December 31, 2015 which are included in the non-accrual loans total.
- (2) Smaller balance homogeneous loans, such as condominium or cooperative apartment and one-to-four family residential real estate loans with balances less than or equal to the FNMA conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") and consumer loans, are collectively evaluated for impairment, and accordingly, not separately identified for impairment disclosures.

**OREO**

Property acquired by the Bank, or a subsidiary, as a result of foreclosure on a real estate loan or a deed in lieu of foreclosure is classified as OREO. Upon entering OREO status, the Bank obtains a current appraisal on the property and reassesses the likely realizable value (a/k/a fair value) of the property quarterly thereafter. OREO is carried at the lower of the fair value or book balance, with any write downs recognized through a provision recorded in non-interest expense. Only the appraised value, or either contractual or formal marketed values that fall below the appraised value, is used when determining the likely realizable value of OREO at each reporting period. The Bank typically seeks to dispose of OREO properties in a timely manner. As a result, OREO properties have generally not warranted subsequent independent appraisals.

There were no OREO properties as of December 31, 2019 or 2018. The Bank did not recognize any provisions for losses on OREO properties during the years ended December 31, 2019 or 2018.

The following table sets forth information regarding non-accrual loans and certain other non-performing assets (including OREO) at the dates indicated:

	<b>At December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in Thousands)</b>				
Total non-accrual loans	\$ 11,091	\$ 2,345	\$ 533	\$ 4,237	\$ 1,611
Non-performing assets:					
TRUP CDOs	—	—	—	1,270	1,236
OREO	—	—	—	—	148
<b>Total non-performing assets</b>	<b>11,091</b>	<b>2,345</b>	<b>533</b>	<b>5,507</b>	<b>2,995</b>
<b>Ratios:</b>					
Total non-accrual loans to total loans	0.21%	0.04%	0.01%	0.08%	0.03%
Total non-performing assets to total assets	0.17	0.04	0.01	0.09	0.06

**Other Potential Problem Loans*****(i) Accruing Loans 90 Days or More Past Due***

The Bank continued accruing interest on two loans with an aggregate outstanding balance of \$1.5 million at December 31, 2019, and one loan with an aggregate outstanding balance of \$0.1 million at December 31, 2018, all of which were 90 days or more past due on their respective contractual maturity dates. These loans continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payments due at maturity. These loans were well secured and were expected to be refinanced, and, therefore, remained on accrual status and were deemed performing assets at the dates indicated above.

***(ii) Loans Delinquent 30 to 89 Days***

The Bank had real estate loans totaling \$0.6 million that were delinquent between 30 and 89 days at December 31, 2019, compared to \$0.3 million at December 31, 2018. There were C&I loans totaling \$0.04 million that were delinquent between 30 and 89 days at December 31, 2019, compared to loans totaling \$0.1 million at December 31, 2018. The 30 to 89 day delinquency levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(iii) Temporary Loan Modifications

There were no temporary modifications (modifications that were either sufficiently minor or temporary in nature so as to not meet the criteria of a TDR) entered into during the years ended December 31, 2019 or 2018. Temporary modifications previously entered into performed according to their contractual terms during the years ended December 31, 2019 and 2018.

**Allowance for Loan Losses**

The following table sets forth the Bank's allowance for loan losses allocated by underlying collateral type and the percent of each to total loans at the dates indicated. Prior to December 31, 2016, any allocated allowance associated with loans both deemed impaired and internally graded as Special Mention or Substandard was reflected on the impaired loan line. Please refer to Note 7 to the Company's Consolidated Financial Statements for a description of impaired, substandard, special mention and pass graded loans.

	<b>At December 31,</b>									
	<b>2019</b>		<b>2018</b>		<b>2017</b>		<b>2016</b>		<b>2015</b>	
	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans	Allocated Amount	Percent of Loans in Each Category to Total Loans
	<b>(Dollars in Thousands)</b>									
Impaired loans	\$ 10,082	0.21%	\$ 230	0.11%	\$ —	0.15%	\$ —	0.21%	\$ —	0.20%
Substandard loans not deemed impaired <sup>(1)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	348	0.37
Special Mention loans <sup>(1)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	88	0.37
Pass graded loans:										
Multifamily residential	10,142	63.39	13,446	71.67	15,219	78.20	16,555	81.56	13,942	79.69
Commercial real estate	3,900	25.28	3,777	21.60	3,535	17.90	3,816	16.86	3,902	17.88
One-to-four family including condominium and cooperative apartment	269	2.76	198	1.80	116	1.13	145	1.31	214	1.46
Construction and land acquisition	1,244	2.22	397	0.55	123	0.16	—	—	—	—
C&I	2,788	6.11	3,716	4.25	2,021	2.44	—	—	—	—
Consumer	16	0.03	18	0.02	19	0.02	20	0.06	20	0.03
<b>Total</b>	<b>\$ 28,441</b>	<b>100.00%</b>	<b>\$ 21,782</b>	<b>100.00%</b>	<b>\$ 21,033</b>	<b>100.00%</b>	<b>\$ 20,536</b>	<b>100.00%</b>	<b>\$ 18,514</b>	<b>100.00%</b>

- (1) During the year ended December 31, 2016, the allowance methodology was refined such that there was not a component for Substandard and Special Mention loans. All non-impaired loans as of December 31, 2019, 2018, 2017, and 2016 were considered Pass graded loans.

The following table sets forth information about the Bank's allowance for loan losses at or for the dates indicated:

	<b>At or for the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in Thousands)</b>				
Total loans outstanding at end of period <sup>(1)</sup>	\$ 5,341,038	\$ 5,383,818	\$ 5,602,117	\$ 5,636,422	\$ 4,696,776
Average total loans outstanding during the period <sup>(2)</sup>	5,461,034	5,454,128	5,843,409	5,212,729	4,328,977
Allowance balance at end of period	28,441	21,782	21,033	20,536	18,514
Allowance for loan losses to total loans at end of period	0.53%	0.40%	0.38%	0.36%	0.39%
Allowance for loan losses to total non-performing loans at end of period	256.43	928.87	3,946.15	484.68	1,149.22
Allowance for loan losses to total non-performing loans and TDRs at end of period	256.43	363.09	243.32	158.87	170.10
Ratio of net charge-offs to average loans outstanding during the period	0.20	0.03	NM	NM	(0.03)

(1) Total loans represent gross loans (excluding loans held for sale), inclusive of deferred fees/costs and premiums/discouts.

(2) Total average loans represent gross loans (including loans held for sale), inclusive of deferred loan fees/costs and premiums/discouts.

NM = not meaningful

#### Reserve for Loan Commitments

At December 31, 2019, the Bank maintained a reserve of \$0.03 million 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**

The following table sets forth the amortized/historical cost and fair value of the total portfolio of investment securities and MBS by accounting classification and type of security that were owned by either the Bank or Holding Company at the dates indicated:

	<b>At December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>Amortized/ Historical Cost</b>	<b>Fair Value</b>	<b>Amortized/ Historical Cost</b>	<b>Fair Value</b>	<b>Amortized/ Historical Cost</b>	<b>Fair Value</b>
	<b>(Dollars in Thousands)</b>					
<b>MARKETABLE EQUITY SECURITIES</b>						
Mutual funds	\$ 5,470	\$ 5,894	\$ 5,713	\$ 5,667	\$ —	\$ —
<b>Total marketable equity securities</b>	<b>5,470</b>	<b>5,894</b>	<b>5,713</b>	<b>5,667</b>	<b>—</b>	<b>—</b>
<b>DEBT SECURITIES</b>						
<b>Available-for-Sale:</b>						
Agency notes	20,000	19,935	25,110	25,145	—	—
Corporate securities	28,086	28,596	11,167	11,135	—	—
<b>MBS</b>						
FHLMC pass through certificates	79,936	81,966	95,683	95,347	8,969	8,968
FNMA pass through certificates	140,868	144,421	208,582	208,081	30,693	30,516
Government National Mortgage Association ("GNMA") pass through certificates	20,891	21,096	51,774	51,185	33,276	33,145
Agency issued CMOs	254,453	254,981	113,470	111,992	278,251	278,755
<b>Total debt securities available-for-sale</b>	<b>544,234</b>	<b>550,995</b>	<b>505,786</b>	<b>502,885</b>	<b>351,189</b>	<b>351,384</b>
<b>INVESTMENT SECURITIES</b>						
<b>Available-for-Sale:</b>						
Mutual funds	—	—	—	—	3,779	4,006
<b>Total investment securities available-for-sale</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,779</b>	<b>4,006</b>
<b>Trading:</b>						
Mutual funds	—	—	—	—	2,648	2,715
<b>Total trading securities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,648</b>	<b>2,715</b>
<b>TOTAL SECURITIES</b>	<b>\$ 549,704</b>	<b>\$ 556,889</b>	<b>\$ 511,499</b>	<b>\$ 508,552</b>	<b>\$ 357,616</b>	<b>\$ 358,105</b>

## MBS

The Company's consolidated investment in MBS totaled \$502.5 million at December 31, 2019. The average duration of these securities was 3.8 years as of December 31, 2019.

The Company typically classifies MBS as available-for-sale. The fair value of MBS available-for-sale was \$6.3 million above their amortized cost at December 31, 2019.

The following table sets forth activity in the MBS portfolio for the periods indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(Dollars in Thousands)</b>		
Amortized cost at beginning of period	\$ 469,509	\$ 351,189	\$ 3,607
Purchases, net	116,498	195,481	348,644
Principal repayments	(89,188)	(76,217)	(957)
Premium amortization, net	(671)	(944)	(105)
Amortized cost at end of period	<u>\$ 496,148</u>	<u>\$ 469,509</u>	<u>\$ 351,189</u>

The increase in the MBS portfolio during the year ended December 31, 2017 was primarily due to the purchase of FHLMC guaranteed structured pass-through certificates that were issued in connection with the Loan Securitization transaction that closed in December 2017 and purchased entirely by the Bank.

The following table presents the amortized cost, fair value and weighted average yield of the Company's consolidated MBS at December 31, 2019, categorized by remaining period to contractual maturity:

	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
	<b>(Dollars in Thousands)</b>		
Due within 1 year	\$ —	\$ —	—%
Due after 1 year but within 5 years	21,276	21,315	2.56
Due after 5 years but within 10 years	160,638	162,905	2.78
Due after ten years	314,234	318,244	2.97
Total	<u>\$ 496,148</u>	<u>\$ 502,464</u>	<u>2.89%</u>

With respect to MBS, the entire carrying amount of each security at December 31, 2019 is reflected in the above table in the maturity period that includes the final security payment date and, accordingly, no effect has been given to periodic repayments or possible prepayments. As mentioned previously, the investment policies of both the Holding Company and the Bank call for the purchase of only priority tranches when investing in MBS. As a result, the weighted average duration of the Company's MBS approximated 3.8 years as of December 31, 2019 when giving consideration to anticipated repayments or possible prepayments, which is significantly less than their weighted average maturity.

## Equity Investments

The Holding Company's investment in mutual funds totaled \$5.7 million at December 31, 2019, \$0.05 million below their cost basis.

## Sources of Funds

### Deposits

The following table sets forth the Bank's deposit accounts and the related weighted average interest rates at the dates indicated:

	At December 31, 2019			At December 31, 2018			At December 31, 2017		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
(Dollars in Thousands)									
Savings accounts	\$ 374,265	8.7%	0.35%	\$ 336,669	7.7%	0.06%	\$ 362,092	8.2%	0.07%
CDs	1,572,869	36.7	2.05	1,410,037	32.4	1.97	1,091,887	24.8	1.47
Money market accounts	1,705,451	39.8	1.03	2,098,599	48.2	1.43	2,517,439	57.2	0.96
Interest-bearing checking accounts	151,491	3.5	0.08	115,972	2.7	0.08	124,283	2.8	0.08
Non-interest-bearing checking accounts	478,549	11.2	—	395,477	9.1	—	307,746	7.0	—
Totals	<u>\$4,282,625</u>	<u>100.00%</u>	<u>1.19%</u>	<u>\$4,356,754</u>	<u>100.00%</u>	<u>1.33%</u>	<u>\$4,403,447</u>	<u>100.00%</u>	<u>0.91%</u>

The weighted average maturity of the Bank's CDs at December 31, 2019 was 8.1 months, compared to 10.0 months at December 31, 2018. The following table presents, by interest rate ranges, the dollar amount of CDs outstanding at the dates indicated and the period to maturity of the CDs outstanding at December 31, 2019:

Interest Rate Range	Period to Maturity at December 31, 2019				Total at December 31,				
	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	2019	2018	2017		
(Dollars in Thousands)									
1.00% and below	\$ 81,712	\$ 13,222	\$ —	\$ —	\$ 94,934	\$ 60,223	\$ 155,360		
1.01% to 2.00%	396,764	118,390	20,812	4,641	540,607	474,982	805,344		
2.01% to 3.00%	834,884	95,186	7,211	—	937,281	874,787	111,322		
3.01% and above	—	47	—	—	47	45	19,861		
Total	<u>\$ 1,313,360</u>	<u>\$ 226,845</u>	<u>\$ 28,022</u>	<u>\$ 4,641</u>	<u>\$ 1,572,869</u>	<u>\$ 1,410,037</u>	<u>\$ 1,091,887</u>		

At December 31, 2019, the Bank had \$1.10 billion in CDs with a minimum denomination of \$100,000 as follows:

Maturity Date	Amount	Weighted Average Rate
	(Dollars in Thousands)	
Within three months	\$ 325,359	2.25%
After three but within six months	375,032	2.02
After six but within twelve months	262,193	2.16
After 12 months	140,548	2.02
Total	<u>\$ 1,103,132</u>	<u>2.12%</u>

The Bank is authorized to accept brokered deposits up to an aggregate limit of 10.0% of total assets. At December 31, 2019, brokered deposits consisted of \$458.7 million, which include purchased CDs from the CDARS program and purchased MMAs from the ICS program. At December 31, 2018, total brokered deposits consisted of \$243.7 million, which include purchased CDs from the CDARS program and also purchased MMAs from the ICS program.

### Borrowings

The Bank's total borrowing line with FHLBNY equaled \$1.81 billion at December 31, 2019. The Bank had \$1.09 billion of FHLBNY advances outstanding at December 31, 2019, and \$1.13 billion at December 31, 2018. The Bank maintained sufficient collateral, as defined by the FHLBNY (principally in the form of real estate loans), to secure such advances.

The following table presents information for FHLBNY advances as of the periods indicated:

	At or for the Year Ended December 31,					
	2019		2018		2017	
	Amount	Average Cost	Amount	Average Cost	Amount	Average Cost
	(Dollars in Thousands)					
Balance outstanding at end of period	\$ 1,092,250	1.98%	\$ 1,125,350	2.27%	\$ 1,170,000	1.67%
Weighted average balance outstanding during the period	1,072,919	2.16	1,016,812	1.93	939,185	1.63
Maximum balance outstanding at month end during period	1,174,200		1,177,450		1,222,500	

The Company had no securities sold under agreements to repurchase at December 31, 2019 or 2018.

### Liquidity and Capital Resources

The Board of Directors of the Bank has approved a liquidity policy that it reviews and updates at least annually. Senior management is responsible for implementing the policy. The Bank's ALCO is responsible for general oversight and strategic implementation of the policy and management of the appropriate departments are designated responsibility for implementing any strategies established by ALCO. On a daily basis, appropriate senior management receives a current cash position report and one-week forecast to ensure that all short-term obligations are timely satisfied and that adequate liquidity exists to fund future activities. Reports detailing the Bank's liquidity reserves and forecasted cash flows are presented to appropriate senior management on a monthly basis, and the Board of Directors at each of its meetings. In addition on a monthly basis, a twelve-month liquidity forecast is presented to ALCO in order to assess potential future liquidity concerns. A forecast of cash flow data for the upcoming 12 months is presented to the Board of Directors on an annual basis.

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 or one-to-four family residential real estate loans to private sector secondary market purchasers, and has in the past sold such loans to FNMA and FHLMC. 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.

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. At December 31, 2018, the Bank did not utilize funds available through the American Financial Exchange. At December 31, 2019, the Bank had \$110.0 million of such borrowings outstanding.

The Bank gathers deposits in direct competition with commercial banks, savings banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity markets. To the extent that the Bank is responsive to general market increases or declines in interest rates, its deposit flows should not be materially impacted. However, favorable performance of the equity or bond markets could adversely impact the Bank's deposit flows.

Total deposits decreased \$74.1 million during the year ended December 31, 2019, compared to a decrease of \$46.7 million during the year ended December 31, 2018. Within deposits, core deposits (i.e., non-CDs) decreased \$237.0 million during the year ended December 31, 2019 and decreased \$364.8 million during the year ended December 31, 2018. The decrease during 2019 and 2018 was primarily driven by of outflows from the bank's online channel, DimeDirect, as the bank's posted rate during both years lagged many of its online competitors, which was offset by an increase of \$162.8 million and \$318.2 million in CDs during 2019 and 2018, respectively.

The Bank decreased its outstanding FHLBNY advances by \$33.1 million and \$44.7 million during the year ended December 31, 2019 and 2018, respectively, as the Bank reduced its reliance on FHLBNY advances.

During the year ended December 31, 2019, principal repayments totaled \$923.1 million on real estate loans (including refinanced loans) compared to \$885.7 million during the year ended December 31, 2018.

Proceeds from the sales of available-for-sale pass-through MBS issued by GSEs and CMOs totaled \$145.8 million during the year ended December 31, 2019. Proceeds from the sales of available-for-sale pass-through MBS issued by GSEs and CMOs totaled \$158.8 million during the year ended December 31, 2018, resulting in a net gain of \$1.4 million.

The Company holds registered mutual funds (as marketable equity securities) as the underlying investments of the BMP, held in a rabbi trust. The Company may sell registered mutual funds on a periodic basis in order to pay retirement benefits to plan retirees. Aggregate proceeds from the sales of registered mutual funds totaled \$0.6 million and \$1.1 million during the years ended December 31, 2019 and 2018, respectively. There are no gains or losses recognized from the sales of registered mutual funds.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through use of its borrowing line at the FHLBNY. At December 31, 2019, the Bank had an additional potential borrowing capacity of \$714.4 million through the FHLBNY, subject to customary minimum common stock ownership requirements imposed by the FHLBNY (*i.e.*, 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary federal regulator. As a general matter, these capital requirements are based on the amount and composition of an institution's assets. At December 31, 2019, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Common Stock into treasury, the payment of quarterly cash dividends to holders of the Common Stock and the payment of quarterly interest to holders of its outstanding subordinated debt. During the years ended December 31, 2019 and 2018, real estate loan originations totaled \$798.9 million and \$579.7 million, respectively. C&I originations totaled \$229.9 million during the year ended December 31, 2019, compared to \$174.0 million during the year ended December 31, 2018, reflecting the Company's strategy to grow the C&I portfolio. Purchases of available-for-sale securities totaled \$317.7 million and \$389.1 million during the year ended December 31, 2019 and 2018, respectively, as the Company grew its on-balance sheet liquidity.

The Holding Company repurchased 1,228,590 and 1,467,449 shares of its Common Stock, at a weighted average price of \$19.69 and \$17.64, during the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019, up to 232,550 shares remained available for purchase under authorized share purchase programs.

During the year ended December 31, 2019, the Holding Company paid \$20.1 million in cash dividends on its Common Stock, down from \$20.8 million during the year ended December 31, 2018, reflecting a decrease of 926,813 common shares outstanding shares from January 1, 2019 to December 31, 2019.

### Contractual Obligations

The Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances, short-term or overnight borrowings, as well as customer CDs with fixed contractual interest rates. During the year ended December 31, 2017, the Holding Company issued \$115.0 million of fixed-to-floating rate subordinated notes due June 2027, which become callable at any time commencing in June 2022. Proceeds from the issuance of subordinated debt were used to redeem the Company's \$70.7 million of callable trust preferred securities outstanding in July 2017. In addition, the Bank is obligated to make rental payments under leases on certain of its branches and equipment.

The table below summarizes contractual obligations for CDs, borrowings and lease obligations at December 31, 2019:

	Payments Due By Period				
	CDs	Weighted Average Rate	Borrowings	Weighted Average Rate	Operating Lease Obligations
Less than one year	\$ 1,313,361	2.06%	\$ 1,043,800	1.86%	\$ 6,852
One year to three years	226,844	2.00	158,450	2.49	13,293
Over three years to five years	28,023	2.08	—	—	11,216
Over five years	4,641	1.59	115,000	4.50	18,981
Total	<u>\$ 1,572,869</u>	<u>2.05%</u>	<u>\$ 1,317,250</u>	<u>2.17%</u>	<u>\$ 50,342</u>

### Off-Balance Sheet Arrangements

As part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Available lines of credit may not be drawn on or may expire prior to funding, in whole or in part, and amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of December 31, 2019:

	<b>Less than One Year</b>	<b>One Year to Three Years</b>	<b>Over Three Years to Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
Credit Commitments:					
Available lines of credit	\$ 1,628	\$ 184,548	\$ —	\$ —	\$ 186,176
Other loan commitments	36,890	—	—	—	36,890
Stand-by letters of credit	2,145	—	—	—	2,145
<b>Total Off-Balance Sheet Arrangements</b>	<b>\$ 40,663</b>	<b>\$ 184,548</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 225,211</b>

Additionally, in connection with the Loan Securitization, the Bank executed a reimbursement agreement with FHLMC that obligates the Company to reimburse FHLMC for any contractual principal and interest payments on defaulted loans, not to exceed 10% of the original principal amount of the loans comprising the aggregate balance of the loan pool at securitization. The maximum exposure under this reimbursement obligation is \$28.0 million. The Bank has pledged \$27.9 million of available-for-sale pass-through MBS issued by GSEs as collateral.

### Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of operations. Unlike industrial companies, nearly all of the Company's consolidated assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's consolidated performance than do the effects of general levels of inflation. Interest rates do not necessarily fluctuate in the same direction or to the same extent as the price of goods and services.

### Recently Issued Accounting Standards

For a discussion of the impact of recently issued accounting standards, please see Note 1 to the Company's Consolidated Financial Statements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a depository financial institution, the Bank's primary source of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the level of interest income recorded on, and the market value of, a significant portion of the Bank's assets. Fluctuations in interest rates will also ultimately impact the level of interest expense recorded on, and the market value of, a significant portion of the Bank's liabilities. In addition, the Bank's real estate and C&I loan portfolios, concentrated primarily within the NYC metropolitan area, are subject to risks associated with the local economy.

Real estate loans, the largest component of the Bank's interest-earning assets, traditionally derive their interest rates primarily from either the five- or seven-year constant maturity Treasury index. As a result, the Bank's interest-earning assets are most sensitive to these benchmark interest rates. Since the majority of the Bank's interest-bearing liabilities mature within one year, its interest-bearing liabilities are most sensitive to fluctuations in short-term interest rates.

Neither the Holding Company nor the Bank is subject to foreign currency exchange or commodity price risk. In addition, the Company did not engage in hedging transactions utilizing derivative instruments (such as interest rate swaps and caps) or embedded derivative instruments that required bifurcation during the years ended December 31, 2019 or 2018. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments. Marketable equity and trading securities owned by the Company were nominal at both December 31, 2019 and 2018.

Since a majority of the Company's consolidated interest-earning assets and interest-bearing liabilities are located at the Bank, virtually all of the interest rate risk exposure exists at the Bank level. As a result, all of the significant interest rate risk management procedures are performed at the Bank level. The Bank's interest rate risk management strategy is designed to limit the volatility of net interest income and preserve capital over a broad range of interest rate movements and has the following three primary components:

*Assets.* The Bank's largest single asset type is the adjustable-rate multifamily residential loan. Multifamily residential loans typically carry shorter average terms to maturity than one-to-four family residential loans, thus significantly reducing the overall level of interest rate risk. Approximately 73% and 99% of multifamily residential loans originated by the Bank during years ended December 31, 2019 and 2018, respectively, were adjustable-rate, with repricing typically occurring after five or seven years. In addition, at December 31,



2019, the Bank has sought to include in its portfolio various types of adjustable-rate one-to-four family loans with annual repricing terms after a fixed period of one to three years. At December 31, 2019, adjustable-rate real estate loans totaled \$4.97 billion, or 78.3% of total assets. At December 31, 2018, adjustable-rate real estate loans totaled \$4.33 billion, or 68.5% of total assets.

*Deposit Liabilities.* As a traditional community-based bank, the Bank is largely dependent upon its base of competitively priced core deposits to provide stability on the liability side of the balance sheet. The Bank has retained many loyal customers over the years through a combination of quality service, convenience, and a stable and experienced staff. Core deposits at December 31, 2019 were \$2.71 billion, or 63.3% of total deposits. The balance of CDs as of December 31, 2019 was \$1.57 billion, or 36.7% of total deposits, of which \$1.31 billion, or 83.5% of total CDs, was to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2019 was 8.1 months, compared to 10.0 months at December 31, 2018. During the years ended December 31, 2019 and 2018, the Bank generally priced its CDs in an effort to stay competitive within the overall market.

*Wholesale Funds.* The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to \$1.81 billion at December 31, 2019. The Bank borrows from the FHLBNY for various purposes. At December 31, 2019, the Bank had outstanding advances of \$1.09 billion from the FHLBNY, all of which were secured by a blanket lien on the Bank's loan portfolio, and none of which were callable. Wholesale funding provides the Bank opportunities to extend the overall duration of its interest bearing liabilities, thus helping manage interest rate risk.

### ***Interest Rate Risk Exposure Analysis***

*Economic Value of Equity ("EVE") Analysis.* In accordance with agency regulatory guidelines, the Bank simulates the impact of interest rate volatility upon EVE using several interest rate scenarios. EVE is the difference between the present value of the expected future cash flows of the Bank's assets and liabilities and the value of any off-balance sheet items, such as derivatives, if applicable.

Traditionally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. Increases in interest rates thus result in decreases in the fair value of interest-earning assets, which could adversely affect the Company's consolidated results of operations in the event they were to be sold, or, in the case of interest-earning assets classified as available-for-sale, reduce the Company's consolidated stockholders' equity, if retained. The changes in the value of assets and liabilities due to fluctuations in interest rates measure the interest rate sensitivity of those assets and liabilities.

In order to measure the Bank's sensitivity to changes in interest rates, EVE is calculated under market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under various other interest rate scenarios ("Rate Shock Scenarios") representing immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed in the Pre-Shock Scenario. An increase in the EVE is considered favorable, while a decline is considered unfavorable. The changes in EVE between the Pre-Shock Scenario and various Rate Shock Scenarios due to fluctuations in interest rates reflect the interest rate sensitivity of the Bank's assets, liabilities, and off-balance sheet items that are included in the EVE. Management reports the EVE results to the Bank's Board of Directors on a quarterly basis. The report compares the Bank's estimated Pre-Shock Scenario EVE to the estimated EVE calculated under the various Rate Shock Scenarios.

The Bank's valuation model makes various estimates regarding cash flows from principal repayments on loans and deposit decay rates at each level of interest rate change. The Bank's estimates for loan repayment levels are influenced by the recent history of prepayment activity in its loan portfolio, as well as the interest rate composition of the existing portfolio, especially in relation to the existing interest rate environment. In addition, the Bank considers the amount of fee protection inherent in the loan portfolio when estimating future repayment cash flows. Regarding deposit decay rates, the Bank tracks and analyzes the decay rate of its deposits over time, with the assistance of a reputable third party, and over various interest rate scenarios. Such results are utilized in determining estimates of deposit decay rates in the valuation model. The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that it considers representative of prevailing market rates of interest with appropriate adjustments it believes are suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios. No matter the care and precision with which the estimates are derived, actual cash flows could differ significantly from the Bank's estimates resulting in significantly different EVE calculations.

The analysis that follows presents, as of December 31, 2019 and 2018, the estimated EVE at both the Pre-Shock Scenario and the +200 Basis Point Rate Shock Scenario. The +200 scenario models the majority of any balance sheet optionality affected by interest rates, which may not be true in the +100 scenario. The analysis additionally presents the percentage change in EVE from the Pre-Shock Scenario to the +200 Basis Point Rate Shock Scenario at both December 31, 2019 and 2018.

	At December 31, 2019			At December 31, 2018		
	EVE	Dollar Change	Percentage Change	EVE	Dollar Change	Percentage Change
<b>Rate Shock Scenario</b>			(Dollars in Thousands)			
<b>+ 200 Basis Points</b>	\$ 595,201	\$ (41,682)	(7.0)%	\$ 643,531	\$ (27,967)	(4.3)%
<b>Pre-Shock Scenario</b>	636,883	—	—	671,498	—	—

The Bank's Pre-Shock Scenario EVE decreased from \$671.5 million at December 31, 2018 to \$636.9 million at December 31, 2019. The primary factors contributing to the lower EVE at December 31, 2019 were the payments of \$52.5 million of dividends from the Bank to the Holding Company and an increase in the value of the Bank's core deposit liability and borrowings. These factors were partially offset by an increase in the value of the Bank's loan portfolio due to a slightly lower duration.

The Bank's EVE in the +200 basis point Rate Shock Scenario decreased from \$643.5 million at December 31, 2018 to \$595.2 million at December 31, 2019.

*Income Simulation Analysis.* As of the end of each quarterly period, the Bank also monitors the impact of interest rate changes through a net interest income simulation model. This model estimates the impact of interest rate changes on the Bank's net interest income over forward-looking periods typically not exceeding 36 months (a considerably shorter period than measured through the EVE analysis). Management reports the net interest income simulation results to the Bank's Board of Directors on a quarterly basis. The following table discloses the estimated changes to the Bank's net interest income over the 12-month period beginning December 31, 2019 assuming gradual changes in interest rates for the given rate scenarios:

Gradual Change in Interest rates of:	Percentage Change in Net Interest Income
+ 200 Basis Points	(3.29)%
+ 100 Basis Points	(1.68)%

## Item 8. Financial Statements and Supplementary Data

For the Company's Consolidated Financial Statements, see pages commencing after signatures.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

### Disclosure Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness as of December 31, 2019, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

### Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

## Management's Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, utilizing the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Controls – Integrated Framework (2013 Framework)." Based upon its assessment, management believes that, as of December 31, 2019, the Company's internal control over financial reporting is effective.

Crowe LLP, the independent registered public accounting firm that audited the consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019.

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the Company is presented under the headings, "Proposal 1 - Election of Directors," "Delinquent Section 16(a) Reports" and "Executive Officers" in the Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 28, 2020 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2019, and is incorporated herein by reference.

Information regarding the audit committee of the Holding Company's Board of Directors, including information regarding audit committee financial experts serving on the audit committee, is presented under the headings, "Meetings and Committees of the Company's Board of Directors," and "Report of the Audit Committee" in the Proxy Statement and is incorporated herein by reference.

The Holding Company has adopted a written Code of Business Ethics that applies to all officers, including its principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. The Code of Business Ethics is published on the Company's website, [www.dime.com](http://www.dime.com). The Company will provide to any person, without charge, upon request, a copy of such Code of Business Ethics. Such request should be made in writing to: Dime Community Bancshares, Inc., 300 Cadman Plaza West, 8<sup>th</sup> Floor, Brooklyn, New York 11201, attention Secretary.

### Item 11. Executive Compensation

Information regarding executive and director compensation and the Compensation Committee of the Holding Company's Board of Directors is presented under the headings, "Directors' Compensation," "Compensation - Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Proxy Statement and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is included under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement and is incorporated herein by reference.

Set forth below is certain information as of December 31, 2019 regarding the Company's equity compensation plans.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options and rights <sup>(1)</sup></b>	<b>Weighted average exercise price with respect to outstanding stock options and rights <sup>(2)</sup></b>	<b>Number of securities remaining available for issuance under the equity compensation plans (excluding securities reflected in column (a)) <sup>(3)</sup></b>
Equity compensation plans approved by security holders	42,031	\$ 14.63	262,114
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>42,031</b>	<b>\$ 14.63</b>	<b>262,114</b>

(1) Includes stock options, restricted stock and shares issuable in connection with awards with performance conditions pursuant to the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees and the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan.

(2) The weighted average exercise price includes the weighted average exercise price of stock options only. Restricted stock and performance shares do not have an exercise price.

(3) Represents the shares remaining under the Dime Community Bancshares, Inc. 2013 Equity and Incentive Plan.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions is included under the heading, "Transactions with Certain Related Persons" in the Proxy Statement and is incorporated herein by reference. Information regarding director independence is included under the heading, "Information as to Nominees and Continuing Directors" in the Proxy Statement and is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services, as well as the Audit Committee's pre-approval policies and procedures, is included under the heading, "Proposal 2 – Ratification of Appointment of Independent Auditors" in the Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a)

#### (1) Financial Statements

For the Company's Consolidated Financial Statements, see pages commencing after signatures.

#### (2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or Notes thereto under "Part II - Item 8. Financial Statements and Supplementary Data."

#### (3) Exhibits Required by Item 601 of SEC Regulation S-K

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002, filed with the SEC on March 28, 2003 (File No. 000-27782))
3.2	Amended and Restated Bylaws of Dime Community Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 24, 2019 (File No. 000-27782))
3.3	Certificate of Designations, Preferences and Rights of 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-A Registration of Certain Classes of Securities pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, filed with the Commission on February 5, 2020 (File No. 333-220175))
4.1	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [see Exhibit 3.1 hereto]
4.2	Amended and Restated Bylaws of Dime Community Bancshares, Inc. [see Exhibit 3.2 hereto]
4.3	Draft Stock Certificate of Dime Community Bancshares, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, filed with the SEC on September 28, 1998 (File No. 000-27782))
4.4	Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company, as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I, and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-4, filed with the SEC on July 29, 2004 (File No. 333-117743))
4.5	Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as Indenture Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-4, filed with the SEC on July 29, 2004 (File No. 333-117743))
4.6	Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-4, filed with the SEC on July 29, 2004 (File No. 333-117743))
4.7	Indenture, dated as of June 13, 2017, by and between Dime Community Bancshares, Inc. and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on June 13, 2017 (File No. 000-27782))
4.8	First Supplemental Indenture, dated as of June 13, 2017, by and between Dime Community Bancshares, Inc. and Wilmington Trust, National Association, as Trustee, including the form of 4.50% fixed-to-floating rate subordinated

- debentures due 2027 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on June 13, 2017 (File No. 000-27782))
- 4.9 Certificate of Designations, Preferences and Rights of 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A [see Exhibit 3.3 hereto]
- 4.10 Specimen Certificate for 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.4 to the Registrant's Form 8-A Registration of Certain Classes of Securities pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934, filed with the Commission on February 5, 2020 (File No. 333-220175))
- 4.11 Description of Dime Community Bancshares, Inc. Securities
- 10.1 Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed with the SEC on May 10, 2011 (File No. 000-27782))
- 10.2 Employment Agreement between Dime Community Bancshares, Inc. and Kenneth J. Mahon (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed with the SEC on May 10, 2011 (File No. 000-27782))
- 10.3 Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed with the SEC on May 9, 2012 (File No. 000-27782))
- 10.4 The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on April 4, 2011 (File No. 000-27782))
- 10.5 Dime Community Bank Severance Benefits Plan (incorporate by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 14, 2018 (File No. 000-27782))
- 10.6 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 16, 2009 (File No. 000-27782))
- 10.7 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on March 29, 2005 (File No. 000-27782))
- 10.9 Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on March 22, 2005 (File No. 000-27782))
- 10.10 Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (incorporated by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed with the SEC on August 8, 2008 (File No. 000-27782))
- 10.11 Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on March 22, 2005) (File No. 000-27782))
- 10.12 Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on March 22, 2005) (File No. 000-27782))
- 10.13 Adoption Agreement for Pentegra Services, Inc. Volume Submitter 401(K) Profit Sharing Plan (incorporated by reference to Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 7, 2015) (File No. 000-27782))

- 10.14 Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 16, 2009) (File No. 000-27782))
- 10.15 Amendment to the Benefit Maintenance Plan (incorporated by reference to Exhibit 10.32 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed with the SEC on November 13, 2012) (File No. 000-27782))
- 10.16 Fourth Amendment to the Benefit Maintenance Plan (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 14, 2019 (File No. 000-27782))
- 10.17 Amendments One, Two and Three to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (incorporated by reference to Exhibit 10.33 the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 15, 2013 (File No. 000-27782))
- 10.18 Dime Community Bancshares, Inc. 2013 Equity and Incentive Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, filed with the SEC on August 9, 2013 (File No. 000-27782))
- 10.19 Form of restricted stock award notice for officers and employees under the 2013 Equity and Incentive Plan (incorporated by reference to Exhibit 10.35 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the SEC on August 5, 2014 (File No. 000-27782))
- 10.20 Form of restricted stock award notice for outside directors under the 2013 Equity and Incentive Plan (incorporated by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the SEC on August 5, 2014 (File No. 000-27782))
- 10.21 The Dime Savings Bank of Williamsburgh 401(K) Savings Plan (incorporated by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 7, 2015 (File No. 000-27782))
- 10.22 Amendment Number Four to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 16, 2015 (File No. 000-27782))
- 10.23 Amendment Number One to the Dime Savings Bank of Williamsburgh 401(K) Savings Plan (incorporated by reference to Exhibit 10.39 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 7, 2015 (File No. 000-27782))
- 10.24 Retirement and Consulting Agreement between Dime Community Bancshares, Inc. and Michael P. Devine (incorporated by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015 (File No. 000-27782))
- 10.25 Retirement and Consulting Agreement between Dime Community Bancshares, Inc. and Vincent F. Palagiano (incorporated by reference to Exhibit 10.41 to the Registrant's Current Report on Form 8-K, filed with the SEC on June 30, 2016) (File No. 000-27782))
- 10.26 Form of performance share award notice for 2016 grants to officers under 2013 Equity and Incentive Plan (incorporated by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the SEC on August 9, 2016 (File No. 000-27782))
- 10.27 Change in Control Employment Agreement between Dime Community Bancshares, Inc. and Stuart Lubow (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 8-K filed with the SEC on February 4, 2019 (File No. 000-27782))
- 10.28 Employment and Change in Control Agreement between Dime Community Bank and Conrad Gunther (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 15, 2017 (File No. 000-27782))

- 10.29 Purchase and Sale Agreement between The Dime Savings Bank of Williamsburgh and Tarvos Capital Partners USA LLC (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 15, 2017 (File No. 000-27782))
- 10.30 Purchase and Sale Agreement between The Dime Savings Bank of Williamsburgh and Havemeyer Owner BB LLC (incorporated by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 15, 2017 (File No. 000-27782))
- 10.31 Amendment Number Five to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (incorporated by reference to Exhibit 10.47 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017 (File No. 000-27782))
- 10.32 Amendment Number Six to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (incorporated by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the SEC on May 9, 2017 (File No. 000-27782))
- 10.33 Dime Community Bank KSOP, as amended and restated effective July 1, 2017 (incorporated by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the SEC on August 7, 2017 (File No. 000-27782))
- 10.34 Amendment Number One to the Dime Community Bank KSOP (incorporated by reference to Exhibit 10.50 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 14, 2018 (File No. 000-27782))
- 10.35 Dime Community Bank KSOP, as amended and restated effective January 1, 2019 (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 14, 2019))
- 10.36 Change in Control Employment Agreement between Dime Community Bancshares, Inc. and Roberto Volino (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 8-K filed with the SEC on February 4, 2019 (File No. 000-27782))
- 10.37 Change in Control Employment Agreement between Dime Community Bancshares, Inc. and Avinash Reddy (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 8-K filed with the SEC on February 4, 2019 (File No. 000-27782))
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350
- 101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2019 is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements

**Item 16. Form 10-K Summary**

Not applicable.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 12, 2020.

DIME COMMUNITY BANCSHARES, INC.

Date: By: /s/ KENNETH J. MAHON  
Kenneth J. Mahon  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 12, 2020 by the following persons on behalf of the registrant and in the capacities indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ VINCENT F. PALAGIANO</u> Vincent F. Palagiano	Chairman of the Board	March 12, 2020
<u>/s/ MICHAEL P. DEVINE</u> Michael P. Devine	Vice Chairman of the Board	March 12, 2020
<u>/s/ KENNETH J. MAHON</u> Kenneth J. Mahon	President, Chief Executive Officer and Director (Principal Executive Officer)	March 12, 2020
<u>/s/ AVINASH REDDY</u> Avinash Reddy	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 12, 2020
<u>/s/ LESLIE VELUSWAMY</u> Leslie Veluswamy	Senior Vice President and Chief Accounting Officer	March 12, 2020
<u>/s/ ROSEMARIE CHEN</u> Rosemarie Chen	Director	March 12, 2020
<u>/s/ STEVEN D. COHN</u> Steven D. Cohn	Director	March 12, 2020
<u>/s/ PATRICK E. CURTIN</u> Patrick E. Curtin	Director	March 12, 2020
<u>/s/ BARBARA M. KOSTER</u> Barbara M. Koster	Director	March 12, 2020
<u>/s/ KATHLEEN M. NELSON</u> Kathleen M. Nelson	Director	March 12, 2020
<u>/s/ JOSEPH J. PERRY</u> Joseph J. Perry	Director	March 12, 2020
<u>/s/ KEVIN STEIN</u> Kevin Stein	Director	March 12, 2020
<u>/s/ OMER S. J. WILLIAMS</u> Omer S. J. Williams	Director	March 12, 2020

**CONSOLIDATED FINANCIAL STATEMENTS OF  
DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of  
Dime Community Bancshares, Inc. and Subsidiaries  
Brooklyn, New York

### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated statements of financial condition of Dime Community Bancshares, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

### **Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Crowe LLP

We have served as the Company's auditor since 2009.

Livingston, New Jersey  
March 12, 2020

**DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Dollars in thousands except share amounts)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS:</b>		
Cash and due from banks	\$ 155,488	\$ 147,256
Total cash and cash equivalents	155,488	147,256
Debt securities available-for-sale, at fair value	550,995	502,885
Marketable equity securities, at fair value	5,894	5,667
Loans:		
Loans secured by real estate	5,002,354	5,163,122
Commercial and industrial ("C&I") loans	336,412	229,504
Other loans	1,772	1,192
Allowance for loan losses	(28,441)	(21,782)
Loans, net	5,312,097	5,372,036
Premises and fixed assets, net	21,692	24,713
Premises held for sale	514	—
Loans held for sale	500	1,097
Federal Home Loan Bank of New York ("FHLBNY") capital stock	56,019	57,551
Bank Owned Life Insurance ("BOLI")	114,257	111,427
Goodwill	55,638	55,638
Operating lease assets	37,858	—
Other assets	43,508	42,308
<b>Total Assets</b>	<b>\$ 6,354,460</b>	<b>\$ 6,320,578</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Liabilities:**

Interest-bearing deposits	\$ 3,804,076	\$ 3,961,277
Non-interest-bearing deposits	478,549	395,477
Due to depositors	4,282,625	4,356,754
Escrow and other deposits	76,481	85,234
FHLBNY Advances	1,092,250	1,125,350
Subordinated notes payable, net	113,906	113,759
Other borrowings	110,000	—
Operating lease liabilities	44,098	—
Other liabilities	38,342	37,400
<b>Total Liabilities</b>	<b>5,757,702</b>	<b>5,718,497</b>

**COMMITMENTS AND CONTINGENCIES** (See Note 23)

**Stockholders' Equity:**

Preferred stock (\$0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2019 and December 31, 2018)	—	—
Common stock (\$0.01 par, 125,000,000 shares authorized, 53,721,189 shares and 53,690,825 shares issued at December 31, 2019 and December 31, 2018, respectively, and 35,154,642 shares and 36,081,455 shares outstanding at December 31, 2019 and December 31, 2018, respectively)	537	537
Additional paid-in capital	279,322	277,512
Retained earnings	581,817	565,713
Accumulated other comprehensive loss, net of deferred taxes	(5,940)	(6,500)
Unearned equity awards	(6,731)	(3,623)
Common Stock held by Benefit Maintenance Plan ("BMP")	(1,496)	(1,509)
Treasury stock, at cost (18,566,547 shares and 17,609,370 shares at December 31, 2019 and December 31, 2018, respectively)	(250,751)	(230,049)
<b>Total Stockholders' Equity</b>	<b>596,758</b>	<b>602,081</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 6,354,460</b>	<b>\$ 6,320,578</b>

See notes to consolidated financial statements.

**DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in thousands except per share amounts)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Interest income:</b>			
Loans secured by real estate	\$ 202,110	\$ 194,842	\$ 204,487
C&I loans	15,980	9,741	3,072
Other loans	70	74	75
Mortgage-backed securities ("MBS")	12,266	10,794	542
Investment securities	2,252	363	577
Other short-term investments	5,590	5,896	3,343
<b>Total interest income</b>	<b>238,268</b>	<b>221,710</b>	<b>212,096</b>
<b>Interest expense:</b>			
Deposits and escrow	62,079	50,389	38,391
Borrowed funds	28,768	24,995	20,975
<b>Total interest expense</b>	<b>90,847</b>	<b>75,384</b>	<b>59,366</b>
<b>Net interest income</b>	<b>147,421</b>	<b>146,326</b>	<b>152,730</b>
Provision for loan losses	17,340	2,244	520
<b>Net interest income after provision for loan losses</b>	<b>130,081</b>	<b>144,082</b>	<b>152,210</b>
<b>Non-interest income:</b>			
Service charges and other fees	5,805	4,642	3,828
Mortgage banking income, net	286	367	201
Net gain on sale of securities and other assets <sup>(1)</sup>	562	1,068	2,740
Gain on sale of loans	1,540	302	1,475
Gain on sale of premises held for sale	—	—	10,412
Income from BOLI	2,830	2,882	2,217
Loan level derivative income	910	—	—
Other	235	262	641
<b>Total non-interest income</b>	<b>12,168</b>	<b>9,523</b>	<b>21,514</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	50,254	45,066	37,036
Stock-based compensation	1,843	1,524	1,687
Occupancy and equipment	16,175	15,250	14,201
Data processing costs	7,816	7,009	8,280
Marketing	1,992	3,198	5,774
Federal deposit insurance premiums	609	1,969	2,966
Loss from extinguishment of debt	3,780	—	1,272
Other	12,918	12,874	13,770
<b>Total non-interest expense</b>	<b>95,387</b>	<b>86,890</b>	<b>84,986</b>
<b>Income before income taxes</b>	<b>46,862</b>	<b>66,715</b>	<b>88,738</b>
Periodic income tax expense	10,676	15,427	36,856
<b>Net income</b>	<b>\$ 36,186</b>	<b>\$ 51,288</b>	<b>\$ 51,882</b>
<b>Earnings per Share ("EPS"):</b>			
<b>Basic</b>	<b>\$ 1.01</b>	<b>\$ 1.38</b>	<b>\$ 1.38</b>
<b>Diluted</b>	<b>\$ 1.01</b>	<b>\$ 1.38</b>	<b>\$ 1.38</b>

(1) Amount includes periodic valuation gains or losses on marketable equity and trading securities.  
See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in thousands except per share amounts)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Net Income</b>	\$ 36,186	\$ 51,288	\$ 51,882
<b>Other comprehensive income (loss):</b>			
Change in unrealized holding loss on securities held-to-maturity and transferred securities	—	—	1,299
Change in unrealized holding gain (loss) on debt securities available-for-sale	9,662	(3,096)	587
Change in pension and other postretirement obligations	433	548	2,758
Change in unrealized (loss) gain on derivatives	(9,209)	(1,450)	794
Other comprehensive gain (loss) before income taxes	<u>886</u>	<u>(3,998)</u>	<u>5,438</u>
<b>Deferred tax expense (benefit)</b>	326	(1,260)	2,427
<b>Other comprehensive income (loss), net of tax</b>	<u>560</u>	<u>(2,738)</u>	<u>3,011</u>
<b>Total comprehensive income</b>	<u>\$ 36,746</u>	<u>\$ 48,550</u>	<u>\$ 54,893</u>

See notes to consolidated financial statements.

**DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Dollars in thousands except per share data)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Deferred Taxes	Unearned Equity Awards	Common Stock Held by BMP	Treasury Stock, at cost	Total Stockholders' Equity
<b>Beginning balance as of January 1, 2017</b>	37,455,853	\$ 536	\$ 278,356	\$ 503,539	\$ (5,939)	\$ (1,932)	\$ (6,859)	\$ (201,833)	\$ 565,868
Net Income	—	—	—	51,882	—	—	—	—	51,882
Other comprehensive income, net of tax	—	—	—	—	3,011	—	—	—	3,011
Exercise of stock options	51,708	—	792	—	—	—	—	—	792
Release of shares, net of forfeitures	141,867	—	1,269	—	—	(2,649)	(170)	1,786	236
Stock-based compensation	—	—	—	—	—	1,687	—	—	1,687
Shares received to satisfy distribution of retirement benefits	(230,358)	—	(3,687)	—	—	—	4,293	(4,511)	(3,905)
Reclassification of tax effects on other comprehensive income	—	—	—	713	(713)	—	—	—	—
Cash dividends declared and paid	—	—	—	(21,004)	—	—	—	—	(21,004)
<b>Ending balance as of December 31, 2017</b>	37,419,070	536	276,730	535,130	(3,641)	(2,894)	(2,736)	(204,558)	598,567
Reclassification of unrealized gains and losses on marketable equity securities	—	—	—	153	(153)	—	—	—	—
Adjusted beginning balance as of January 1, 2018	37,419,070	536	276,730	535,283	(3,794)	(2,894)	(2,736)	(204,558)	598,567
Net Income	—	—	—	51,288	—	—	—	—	51,288
Other comprehensive loss, net of tax	—	—	—	—	(2,738)	—	—	—	(2,738)
Exercise of stock options, net	57,327	1	1,118	—	—	—	—	(165)	954
Release of shares, net of forfeitures	122,402	—	816	—	—	(2,253)	—	1,513	76
Stock-based compensation	—	—	—	—	—	1,524	—	—	1,524
Shares received to satisfy distribution of retirement benefits	(49,895)	—	(1,152)	—	—	—	1,227	(958)	(883)
Reclassification of tax effects on other comprehensive income (loss)	—	—	—	(32)	32	—	—	—	—
Cash dividends declared and paid	—	—	—	(20,826)	—	—	—	—	(20,826)
Repurchases of shares of Common Stock	(1,467,449)	—	—	—	—	—	—	(25,881)	(25,881)
<b>Ending Balance as of December 31, 2018</b>	36,081,455	537	277,512	565,713	(6,500)	(3,623)	(1,509)	(230,049)	602,081
Net Income	—	—	—	36,186	—	—	—	—	36,186
Other comprehensive income, net of tax	—	—	—	—	560	—	—	—	560
Exercise of stock options	30,364	—	367	—	—	—	—	—	367
Release of shares, net of forfeitures	277,819	—	1,456	—	—	(4,951)	—	3,626	131
Stock-based compensation	—	—	—	—	—	1,843	—	—	1,843
Shares received to satisfy distribution of retirement benefits	(189)	—	(13)	—	—	—	13	(4)	(4)
Shares received related to tax withholding	(6,217)	—	—	—	—	—	—	(133)	(133)
Cash dividends declared and paid	—	—	—	(20,082)	—	—	—	—	(20,082)
Repurchase of shares of Common Stock	(1,228,590)	—	—	—	—	—	—	(24,191)	(24,191)
<b>Ending balance as of December 31, 2019</b>	35,154,642	537	279,322	581,817	(5,940)	(6,731)	(1,496)	(250,751)	596,758

See notes to consolidated financial statements.



**DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 36,186	\$ 51,288	\$ 51,882
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Net gain on sale of investment securities held-to-maturity	—	—	(2,607)
Net (gain) loss on sales of securities available-for-sale	(31)	(1,370)	36
Net (gain) loss recognized on marketable equity securities and trading securities	(531)	302	(169)
Net gain on sale of loans held for sale	(1,540)	(302)	(1,475)
Net gain on sale of premises	—	—	(10,412)
Net depreciation, amortization and accretion	5,075	4,965	3,673
Stock-based compensation	1,843	1,524	1,687
Provision for loan losses	17,340	2,244	520
Originations of loans held for sale	(23,154)	(3,228)	—
Proceeds from sale of loans originated for sale	38,666	5,297	—
Increase in cash surrender value of BOLI	(2,830)	(2,882)	(2,217)
Deferred income tax provision (benefit)	(2,383)	(807)	10,515
Reduction in credit related other than temporary impairment ("OTTI") amortized through interest income	—	—	(60)
Changes in assets and liabilities:			
Decrease (Increase) in other assets	3,186	7,089	(7,205)
(Increase) Decrease in other liabilities	(3,336)	185	(906)
<b>Net cash provided by Operating activities</b>	<b>68,491</b>	<b>64,305</b>	<b>43,262</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of investment securities held-to-maturity	—	—	9,167
Proceeds from sales of securities available-for-sale	148,857	158,758	15,377
Proceeds from sales of marketable equity securities and trading securities	570	1,059	4,629
Purchases of securities available-for-sale	(317,656)	(389,117)	(363,825)
Acquisition of marketable equity securities and trading securities	(266)	(307)	(222)
Proceeds from calls and principal repayments of securities available-for-sale	129,680	76,217	957
Purchase of BOLI	—	—	(20,000)
Purchases of loans	—	(7,800)	—
Proceeds from the sale of portfolio loans transferred to held for sale	9,684	—	333,176
Net decrease (increase) in loans	18,953	211,668	(298,910)
Proceeds from the sale of fixed assets and premises held for sale	—	—	11,791
Purchases of fixed assets, net	(1,719)	(4,290)	(9,231)
Sale (Purchase) of FHLB NY capital stock, net	1,532	2,145	(15,252)
<b>Net cash provided by (used in) Investing Activities</b>	<b>(10,365)</b>	<b>48,333</b>	<b>(332,343)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase (decrease) in due to depositors	(74,129)	(46,693)	8,021
Increase (decrease) in escrow and other deposits	(8,753)	3,066	(20,833)
Repayments of FHLB NY advances	(4,517,550)	(3,651,600)	(4,602,075)
Proceeds from FHLB NY advances	4,484,450	3,606,950	4,940,950
Proceeds from Subordinated Debt issuance, net	—	—	113,531
Repayments of Trust Preferred Securities	—	—	(70,680)
Proceeds from other borrowings, net	110,000	—	—
Proceeds from exercise of stock options	367	954	792
Release of Common Stock for equity awards	131	76	236
Payments related to tax withholding for equity awards	(133)	—	—
BMP shares of Common Stock received to satisfy distribution of retirement benefits	(4)	(883)	(3,905)
Treasury shares repurchased	(24,191)	(25,881)	—
Cash dividends paid to stockholders, net	(20,082)	(20,826)	(21,004)
<b>Net cash provided by (used in) Financing Activities</b>	<b>(49,894)</b>	<b>(134,837)</b>	<b>345,033</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,232</b>	<b>(22,199)</b>	<b>55,952</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>147,256</b>	<b>169,455</b>	<b>113,503</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 155,488</b>	<b>147,256</b>	<b>169,455</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for income taxes	\$ 11,944	8,428	36,515
Cash paid for interest	92,707	74,297	59,823
Loans transferred to held for sale	22,921	2,829	333,192
Premises transferred to held for sale	514	—	—
Operating lease assets in exchange for operating lease liabilities	49,747	—	—
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	—	—	50
Net decrease in non-credit component of OTTI	—	—	(20)
Reductions for previous credit losses realized on securities sold	—	—	1,229

**DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars In Thousands except for share amounts)**

## **1. NATURE OF OPERATIONS**

*Nature of Operations* - Dime Community Bancshares, Inc. (the "Holding Company" and together with its direct and indirect subsidiaries, the "Company") is a Delaware corporation organized by Dime Community Bank (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in the Bank's conversion to stock ownership on June 26, 1996. At December 31, 2019, the significant assets of the Holding Company were the capital stock of the Bank and investments retained by the Holding Company. The liabilities of the Holding Company were comprised primarily of \$115,000 subordinated notes payable maturing in 2027, and become callable commencing 2022. The Company is subject to the financial reporting requirements of the Securities Exchange Act of 1934, as amended.

The Bank was originally founded in 1864 as a New York State-chartered mutual savings bank, and currently operates as a New York State-chartered commercial bank. Effective August 1, 2016, the Bank changed its name from The Dime Savings Bank of Williamsburgh to Dime Community Bank. The new name more accurately reflects the Bank's evolving business model and emphasizes its broader geographic and business reach while retaining the Bank's mission to be in and of the communities it serves, including the virtual online community. 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, 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 Holding Company neither owns nor leases any property, but instead uses the back office of the Bank, located in the Brooklyn Heights section of the borough of Brooklyn, New York. The Bank maintains its principal office in the Williamsburg section of the borough of Brooklyn, New York. As of December 31, 2019, the Bank had twenty-nine retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau and Suffolk counties, New York.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Summary of Significant Accounting Policies* – Management believes that the accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The following is a description of the significant policies.

*Principles of Consolidation* - The accompanying consolidated financial statements include the accounts of the Holding Company and the Bank and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

*Use of Estimates* - To prepare consolidated financial statements in conformity with GAAP, management makes judgments, estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

*Cash and Cash Equivalents* - Cash and cash equivalents include cash and deposits with other financial institutions with maturities fewer than 90 days. Net cash flows are reported for customer loan and deposit transactions, and interest bearing deposits in other financial institutions.

*Securities* - Debt securities that have readily determinable fair values are carried at fair value unless they are held-to-maturity. Debt securities are classified as held-to-maturity and carried at amortized cost only if the Company has a positive intent and ability to hold them to maturity. If not classified as held-to-maturity, such securities are classified as securities available-for-sale or trading. Equity securities and mutual fund investments (fixed income or equity in nature) are carried at fair value, with changes in fair value reported in net income. Unrealized holding gains or losses on securities available-for-sale that are deemed temporary are excluded from net income and reported net of income taxes as other comprehensive income or loss. Neither the Holding Company nor the Bank actively acquires securities for the purpose of engaging in trading activities.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for MBS where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company adopted Accounting Standards Update ("ASU") 2016-01 on January 1, 2018. As a result of adoption all registered mutual funds and trading securities were reclassified as marketable equity securities on the Consolidated Statement of Financial Conditions and are recorded at fair value with changes in fair value recorded through the income statement. Additionally, \$153 of unrealized gains, net of taxes, was reclassified from accumulated other comprehensive income to beginning retained earnings on January 1, 2018.

The Company evaluates securities for OTTI at least quarterly, and more frequently when economic or market conditions warrant such an evaluation. In making its evaluation of OTTI for debt securities, the Company initially considers whether: (1) it intends to sell the security, or (2) it is more likely than not that it will be required to sell the security prior to recovery of its amortized cost basis. If either of these criteria is satisfied, an OTTI charge is recognized in the statement of income equal to the full amount of the decline in fair value below amortized cost. For debt securities, if neither of these criteria is satisfied, however, the Company does not expect to recover the entire amortized cost basis, an OTTI loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of OTTI attributable to credit loss, the Company compares the present value of expected cash flows to the amortized cost basis of the security. The portion of OTTI determined to result from credit-related factors is recognized through earnings, while the portion of the OTTI related to other factors is recognized in other comprehensive income. When OTTI is recognized on a debt security, its amortized cost basis is reduced to reflect the credit-related component.

*Loans* - Loans that the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding (as adjusted for any amounts charged-off), net of unearned fees or costs, unamortized premiums and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms. Past due status is based upon the contractual terms of the loan.

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 and the loan is not 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.

Management may elect to continue the accrual of interest when a loan that otherwise meets the criteria for non-accrual status is in the process of collection and the estimated fair value and cash flows of the underlying collateral property are sufficient to satisfy the outstanding principal balance (including any outstanding advances related to the loan) and accrued interest. Management may also elect to continue the accrual of interest on a loan that would otherwise meet the criteria for non-accrual status when its delinquency relates solely to principal amounts due, it is well secured and refinancing activities have commenced on the loan. Such elections have not been commonplace.

The Company generally initiates foreclosure proceedings when a delinquent loan enters non-accrual status, and typically does not accept partial payments once foreclosure proceedings have commenced. 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 OREO status. The Company generally utilizes all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans 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.

A loan is considered impaired when, based on then current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays or shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or 3) the present value of estimated future cash flows (using the loan's pre-modification rate for some performing troubled debt restructurings ("TDRs")). If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral property or the present value of the expected cash flows from the debt service in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, generally the likely realizable net proceeds from either a note sale or the liquidation of the collateral is considered when measuring impairment. Measured impairment is either charged-off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses. See Note 7 for a discussion of TDRs.

*Allowance for Loan Losses and Reserve for Loan Commitments* - The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using

past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses. All loans that are deemed to meet the definition of impaired are individually evaluated for impairment. Smaller balance homogeneous loans, such as condominium or cooperative apartment and one-to-four family residential real estate loans with balances less than or equal to the Fannie Mae ("FNMA") conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") and consumer loans, are collectively evaluated for impairment, and accordingly, not separately identified for impairment disclosures.

Loans for which the terms have been modified in a manner that meets the criteria of a TDR are deemed to be impaired and individually evaluated for impairment. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral property or the present value of the expected cash flows from the debt service in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has defaulted, the likely realizable net proceeds from either a note sale or the liquidation of collateral is generally considered when measuring impairment.

In determining both the specific and the general components of the allowance for loan losses, the Company has identified the following portfolio segments: 1) real estate; 2) C&I loans; and 3) consumer loans. Consumer loans represent a nominal portion of the Company's loan portfolio. Within these segments, the Bank analyzes the allowance based upon the underlying collateral type.

The underlying methodology utilized to assess the adequacy of the allowance for loan losses is summarized in Note 7.

The Company maintains a separate reserve within other liabilities associated with commitments to fund future loans that have been accepted by the borrower. This reserve is determined based upon the historical loss experience of similar loans owned by the Bank at each period end. Any changes in this reserve amount are recognized through earnings as a component of non-interest expense.

*Loans Held for Sale* - Loans originated and intended for sale in the secondary market, as well as identified problem loans which are subject to an executed note sale agreement, are carried at the lower of aggregate cost or net realizable proceeds. Loans originated and intended for sale are generally sold with servicing rights retained. Certain problematic loans in which the Company has identified for sale during the year in which a pending note sale agreement has been executed will be re-classified as held for sale and carried at the lower of cost or their expected net realizable proceeds.

*Derivatives* – The Company may engage in two types of derivatives depending on the Company's intentions and belief as to the likely effectiveness as a hedge. These two types are (1) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge") or (2) an instrument with no hedging designation ("stand-alone derivative"). For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivative instruments that are used are highly effective in offsetting changes in or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in cash flows of the hedged item, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a cash flow hedge is discontinued but the hedged cash flows are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transaction will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Company is a party settle monthly. In addition, the Company obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

*OREO* - Properties acquired as a result of foreclosure on a real estate loan or a deed in lieu of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate collateralizing a one-to-four family residential loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through execution of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Declines in the recorded balance subsequent to acquisition by the Company are recorded through expense. Operating costs after acquisition are expensed.

*Premises and Fixed Assets, Net* - Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives of thirty-nine and a half years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to ten years.

*Leases* - On January 1, 2019, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. The Company adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classification conclusions
- Carryover of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets, and operating lease liabilities of \$41,641 as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Statements of Income. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 11.

The Company made a policy election to exclude the recognition requirements of ASU 2016-02 to short-term leases, those leases with original terms of 12 months or less. Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion, and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. The Company does not lease properties from any related parties.

*Accounting for Goodwill and Other Intangible Assets* – In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, which eliminates step 2 of the impairment analysis. While this guidance is not effective until January 1, 2020, the Company elected to early adopt this guidance as of January 1, 2018. Based upon one reporting unit (see disclosures about "Segments of an Enterprise and Related Information" below), the goodwill impairment test was performed on a consolidated basis by comparing the fair value of the reporting unit, calculated as the market capitalization of the Company, with its carrying amount (including goodwill). To the extent that the carrying amount of goodwill exceeds the implied fair value, an impairment charge must be recognized in an amount equal to the excess carrying amount over fair value. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. As of December 31, 2019 and 2018, the Company concluded that no impairment of goodwill existed.

*Servicing Right Assets ("SRA")* – When real estate or C&I loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. SRAs are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, anticipated net servicing income. All separately recognized SRAs are required to be initially measured at fair value, if practicable. The estimated fair value of loan servicing assets is determined by calculating the present value of estimated future net servicing cash flows, using assumptions of prepayments, defaults, servicing costs and discount rates derived based upon actual historical results for the Bank, or, in the absence of such data, from historical results for the Bank's peers. Capitalized loan servicing assets are stratified based on predominant risk characteristics of the underlying loans (*i.e.*, collateral, interest rate, servicing spread and maturity) for the purpose of evaluating impairment. A valuation allowance is then established in the event the recorded value of an individual stratum exceeds its fair value. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds, default rates, and losses.

*Transfers of Financial Assets* – Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

*BOLI* – BOLI is carried at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. Increases in the contract value are recorded as non-interest income in the consolidated statements of income and insurance proceeds received are recorded as a reduction of the contract value.

*Income Taxes* – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount deemed more likely than not to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not satisfying the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to tax matters in income tax expense. The Company had no unrecorded tax positions at December 31, 2019 or 2018.

*Employee Benefits* – The Bank maintains the Dime Community Bank KSOP Plan (the "KSOP") for substantially all of its employees, and the Retirement Plan of Dime Community Bank (the "Employee Retirement Plan"), both of which are tax qualified under the Internal Revenue Code.

The Bank also maintains the Postretirement Welfare Plan of Dime Community Bank (the "Postretirement Benefit Plan"), providing additional postretirement benefits to certain retirees, which requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services, a Retirement Plan for its outside Directors (the "Director Retirement Plan"), and the BMP that provides additional benefits to certain of its officers.

As the sponsor of a single employer defined benefit plan, the Company must do the following for the Employee Retirement Plan, a portion of the BMP, the Director Retirement Plan and the Postretirement Benefit Plan: (1) recognize the funded status of the benefit plans in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation; (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit or cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation are adjusted as they are subsequently recognized as components of net periodic benefit cost; (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statements of financial condition (with limited exceptions); and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

The Holding Company and Bank maintain the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees, the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees and the Dime Community Bancshares, Inc. 2013 Equity and Incentive Plan (collectively the "Stock Plans"); which are discussed more fully in Note 22. Under the Stock Plans, compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of the awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Holding Company's common stock ("Common Stock") at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

*Basic and Diluted EPS* - Basic EPS is computed by dividing net income by the weighted-average common shares outstanding during the reporting period. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" stock options were exercised and converted into Common Stock, and if all likely aggregate Long-term Incentive Plan ("LTIP") and Sales Incentive Plan ("SIP") share are issued. In determining the weighted average shares outstanding for basic and diluted EPS, treasury shares are excluded. Vested restricted stock award ("RSA") shares are included in the calculation of the weighted average shares outstanding for basic and diluted EPS. Unvested RSA, LTIP, and SIP shares not yet awarded are recognized as a special class of participating securities under ASC 260, and are included in the calculation of the weighted average shares outstanding for basic and diluted EPS.

The following is a reconciliation of the numerator and denominator of basic EPS and diluted EPS for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Numerator:</b>			
Net Income per the Consolidated Statements of Income	\$ 36,186	\$ 51,288	\$ 51,882
Less: Dividends paid on earnings allocated to participating securities	(184)	(160)	(131)
Income attributable to Common Stock	<u>\$ 36,002</u>	<u>\$ 51,128</u>	<u>\$ 51,751</u>
Weighted average common shares outstanding, including participating securities	35,865,078	37,163,023	37,593,715
Less: weighted average participating securities	(212,289)	(155,553)	(163,056)
Weighted average common shares outstanding	<u>35,652,789</u>	<u>37,007,470</u>	<u>37,430,659</u>
Basic EPS	<u>\$ 1.01</u>	<u>\$ 1.38</u>	<u>\$ 1.38</u>
Income attributable to Common Stock	\$ 36,002	\$ 51,128	\$ 51,751
Weighted average common shares outstanding	35,652,789	37,007,470	37,430,659
Weighted average common equivalent shares outstanding	127,936	80,292	79,790
Weighted average common and equivalent shares outstanding	<u>35,780,725</u>	<u>37,087,762</u>	<u>37,510,449</u>
Diluted EPS	<u>\$ 1.01</u>	<u>\$ 1.38</u>	<u>\$ 1.38</u>

Common stock equivalents resulting from the dilutive effect of "in-the-money" stock options are calculated based upon the excess of the average market value of the Common Stock over the exercise price of outstanding options.

There were no "out-of-the-money" stock options for the year ended December 31, 2019, 2018, or 2017.

For information about the calculation of likely aggregate LTIP and SIP share payout, see Note 22.

*Comprehensive Income* - Comprehensive income for the years ended December 31, 2019, 2018 and 2017 included some or all of the following: changes in the unrealized gain or loss on available-for-sale securities; changes in the unfunded status of defined benefit plans, the non-credit component of OTTI; a transfer loss related to securities transferred from available-for-sale to held-to-maturity; and changes in the unrealized gain or loss on derivatives. Under GAAP, all of these items bypass net income and are typically reported as components of stockholders' equity. All comprehensive income adjustment items are presented net of applicable tax effect.

Comprehensive and accumulated comprehensive income are summarized in Note 4.

*Disclosures about Segments of an Enterprise and Related Information* - The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on the manner in which it supports the other activities of the Company. For example, lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment or unit.

For the years ended December 31, 2019, 2018 and 2017, there was no customer that accounted for more than 10% of the Company's consolidated revenue.

*Reclassification* - There have been no material reclassifications to prior year amounts to conform to their current presentation.

### 3. RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires that the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current condition, and reasonable and supportable forecasts. This standard requires financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates.

In anticipation of adoption, the Company has established the CECL Subcommittee, a subcommittee of the Loan Loss Reserve Committee to oversee the adoption of ASU 2016-13 on its consolidated financial statements. The Company has engaged a third party software provider to use their model to measure the expected credit losses. The CECL Subcommittee has determined loan segments based on credit risk of the loan portfolio, completed data validation, and developed qualitative adjustments. The CECL Subcommittee is in the process of developing and updating internal policies, procedures, and key controls over the calculation of the allowance for credit losses ("ACL"). The Company has also engaged an independent third party vendor which is in the process of reviewing the regression models, assumptions utilized, and validating the model for measuring the expected credit losses. The model validation report has not yet been finalized.

Upon adoption, the Company expects to recognize a one-time cumulative effect change to the allowance for loan losses through retained earnings in equity. Upon completion of the aforementioned items, the Loan Loss Reserve Committee, who has oversight over the implementation of CECL, is expected to finalize and approve the adoption of the standard during the first quarter of 2020.

#### 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Activity in accumulated other comprehensive income (loss), net of tax, was as follows:

	Securities Available- for-Sale	Defined Benefit Plans	Derivatives	Total Accumulated Other Comprehensive Loss
<b>Balance as of January 1, 2018</b>	\$ 285	\$ (6,633)	\$ 2,707	\$ (3,641)
Reclassification of unrealized gains and losses on available-for-sale equity securities <sup>(1)</sup>	(153)	—	—	(153)
<b>Adjusted balance as of January 1, 2018</b>	132	(6,633)	2,707	(3,794)
Other comprehensive income (loss) before reclassifications	(1,159)	311	(490)	(1,338)
Amounts reclassified from accumulated other comprehensive loss	(930)	—	(470)	(1,400)
Net other comprehensive income (loss) during the period	(2,089)	311	(960)	(2,738)
Reclassification of tax effects on other comprehensive income <sup>(2)</sup>	—	32	—	32
<b>Balance as of December 31, 2018</b>	\$ (1,957)	\$ (6,290)	\$ 1,747	\$ (6,500)
Other comprehensive income (loss) before reclassifications	6,600	(229)	(5,636)	735
Amounts reclassified from accumulated other comprehensive loss	(22)	495	(648)	(175)
Net other comprehensive income during the period	6,578	266	(6,284)	560
<b>Balance as of December 31, 2019</b>	\$ 4,621	\$ (6,024)	\$ (4,537)	\$ (5,940)

- (1) Represents the impact of adopting ASU 2016-01 allowing the reclassification of unrealized gains and losses on available-for-sale equity securities from accumulated other comprehensive income to Retained Earnings.
- (2) Represents the impact of adopting ASU 2018-02 allowing the reclassification of certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 (the "Tax Act") (or portion thereof) is recorded. The amount of the reclassification is the difference between the historical corporate income tax rate (35%) and the newly enacted 21% corporate income tax rate. The reclassification is as of and for the year ended December 31, 2017; no prior period information has been retroactively adjusted as a result of implementing the ASU.



The before and after tax amounts allocated to each component of other comprehensive income (loss) are presented in the table below for the periods indicated.

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Change in unrealized holding loss on securities held-to-maturity and transferred securities:			
Accretion of previously recognized non-credit component of OTTI	\$ —	\$ —	\$ 20
Change in unrealized loss on securities transferred to held-to-maturity	—	—	50
Reclassification adjustment for net gains included in net gain on securities and other assets	—	—	1,229
Net change	—	—	1,299
Tax expense	—	—	586
Net change in unrealized holding loss on securities held-to-maturity and transferred securities	—	—	713
Change in unrealized holding gain on securities available-for-sale:			
Change in net unrealized (loss) gain during the period	9,693	(1,726)	551
Reclassification adjustment for net (losses) gains included in net gain on securities and other assets	(31)	(1,370)	36
Net change	9,662	(3,096)	587
Tax expense (benefit)	3,084	(1,007)	260
Net change in unrealized holding gain on securities available-for-sale	6,578	(2,089)	327
Change in pension and other postretirement obligations:			
Reclassification adjustment for expense included in other expense	729	514	1,421
Change in the net actuarial gain	(296)	34	1,337
Net change	433	548	2,758
Tax expense	167	237	1,239
Net change in pension and other postretirement obligations	266	311	1,519
Change in unrealized loss on derivatives:			
Change in net unrealized (gain) loss during the period	(8,254)	(758)	511
Reclassification adjustment for expense included in interest expense	(955)	(692)	283
Net change	(9,209)	(1,450)	794
Tax expense (benefit)	(2,925)	(490)	342
Net change in unrealized loss on derivatives	(6,284)	(960)	452
Other comprehensive income (loss)	<u>\$ 560</u>	<u>\$ (2,738)</u>	<u>\$ 3,011</u>

## 5. REVENUE FROM CONTRACTS WITH CUSTOMERS

In accordance with ASC 606, certain in-scope revenues are recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to performance obligations in the contract
5. Recognize revenue when (or as) the Company satisfies a performance obligation

The Company's only in-scope revenue stream that is subject to the accounting standard is service fees on deposit accounts (including interchange fees), which is disclosed on the Consolidated Statements of Income as "Service charges and other fees."

*Service Charges on Deposit Accounts.* The Company earns fees from its deposits customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payments, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfied the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. For the years ended December 31, 2019, 2018, and 2017, service charges and other fees totaled \$4,972, \$3,935, and \$3,368, respectively.

*Interchange Income.* The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provide to the cardholder. For the years ended December 31, 2019, 2018, and 2017, interchange fees totaled \$833, \$738, and \$578, respectively.

## 6. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following tables summarize the major categories of debt securities owned by the Company as of the dates indicated:

	<b>At December 31, 2019</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Debt securities available-for-sale:</b>				
Agency Notes	\$ 20,000	\$ —	\$ (65)	\$ 19,935
Corporate Securities	28,086	510	—	28,596
Pass-through MBS issued by GSEs	241,695	5,788	—	247,483
Agency Collateralized Mortgage Obligation ("CMO")	254,453	1,105	(577)	254,981
Total debt securities available-for-sale	<u>\$ 544,234</u>	<u>\$ 7,403</u>	<u>\$ (642)</u>	<u>\$ 550,995</u>
<b>At December 31, 2018</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Debt securities available-for-sale:</b>				
Agency Notes	\$ 25,110	\$ 45	\$ (10)	\$ 25,145
Corporate Securities	11,167	—	(32)	11,135
Pass-through MBS issued by GSEs	356,039	574	(2,000)	354,613
Agency CMO	113,470	157	(1,635)	111,992
Total debt securities available-for-sale	<u>\$ 505,786</u>	<u>\$ 776</u>	<u>\$ (\$3,677)</u>	<u>\$ 502,885</u>

The carrying amount of securities pledged as collateral for the Bank's first loss guarantee (see Note 8) at December 31, 2019 and 2018 was \$27,884 and \$27,248, respectively.

At year-end 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

At December 31, 2019, agency notes possessed a weighted average contractual maturity of 7.1 years. As of December 31, 2019, the available-for-sale agency CMO and MBS securities had a weighted average term to maturity of 17.1 years. At December 31, 2019, corporate securities possessed a weighted average contractual maturity of 5.8 years.

During the year ended December 31, 2017, the Company sold its entire portfolio of investment securities held-to-maturity consisting of six TRUP CDO securities, of which five were deemed to be OTTI. The TRUP CDO portfolio was sold as part of the Company's strategy to take advantage of investment opportunities. The amortized cost of the TRUP CDO portfolio was \$5,331 at the time of the sale. The amortized cost represents the purchase amortized/historical cost less \$8,553 of OTTI charges previously recognized and \$705 of the unamortized portion of unrealized losses that were recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity). As a result of the sale, the pre-tax balances of both the unamortized portion of the unrealized losses at transfer to held-to-maturity of \$705 and the unamortized portion of previous credit losses of \$524 were reclassified out of accumulated comprehensive loss during the year ended December 31, 2017. Gross proceeds from the sale of the TRUP CDOs were \$9,167 for the year ended December 31, 2017. Gross gains of \$3,048 and gross losses of \$441 were recognized on these sales. There were no sales of held-to-maturity securities during the year ended December 31, 2019 or 2018.

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Available-for-sale pass-through MBS issued by GSEs:</b>			
Proceeds	\$ 136,436	\$ 274	\$ 15,000
Gross gains	414	4	—
Tax expense on gain	132	1	—
Gross losses	520	—	36
Tax benefit on losses	166	—	16
<b>Available-for-sale CMOs:</b>			
Proceeds	9,383	158,484	—
Gross gains	98	1,366	—
Tax expense on gain	31	437	—
<b>Corporate Securities:</b>			
Proceeds	3,038	—	—
Gross gains	39	—	—
Tax expense on gain	12	—	—

The Company holds marketable equity securities (disclosed as both investment securities available-for-sale and trading securities during the year ended December 31, 2017) as the underlying mutual fund investments of the BMP, held in a rabbi trust. The Company may sell these securities on a periodic basis in order to pay retirement benefits to plan retirees. There are no gains or losses recognized from the sales of marketable equity securities. A summary of the sales of marketable equity securities is listed below for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proceeds:			
Marketable equity securities	\$ 570	\$ 1,059	\$ —
Investment securities available-for-sale	—	—	377
Trading securities	—	—	4,629

The remaining gain or loss on securities shown in the consolidated statements of income was due to market valuation changes. Net gains of \$531 were recognized on marketable equity securities for the year ended December 31, 2019. Net losses of \$302 were recognized on marketable equity securities during year ended December 31, 2018. Net gains of \$169 were recognized on trading securities during year ended December 31, 2017.

The following table summarizes the gross unrealized losses and fair value of investment securities aggregated by investment category and the length of time the securities were in a continuous unrealized loss position for the periods indicated:

	<b>December 31, 2019</b>					
	<b>Less than 12 Consecutive Months</b>		<b>12 Consecutive Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>Debt securities available-for-sale:</b>						
Agency Notes	\$ 9,935	\$ 65	\$ —	\$ —	\$ 9,935	\$ 65
Agency CMO	107,150	548	4,304	29	111,454	577

	<b>December 31, 2018</b>					
	<b>Less than 12 Consecutive Months</b>		<b>12 Consecutive Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>Debt securities available-for-sale:</b>						
Agency Notes	\$ 5,100	\$ 10	\$ —	\$ —	\$ 5,100	\$ 10
Corporate Securities	11,135	32	—	—	11,135	32
Pass-through MBS issued by GSEs	216,451	1,049	45,489	951	261,940	2,000
Agency CMO	52,605	439	39,833	1,196	92,438	1,635

The issuers of debt securities available-for-sale are U.S. government-sponsored entities or agencies. The decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality. It is likely that the Company will not be required to sell the securities before their anticipated recovery, and as such, the Company does not consider these securities to be other-than-temporarily-impaired at December 31, 2019.

There was no activity related to OTTI charges recognized on the Company's registered mutual funds during the year ended December 31, 2019, 2018, or 2017.

## 7. LOANS

Loans are reported at the principal amount outstanding (as adjusted for any amounts charged-off), net of unearned fees or costs, unamortized premiums or discounts, and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Loans at year-end (including deferred costs) were as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
One-to-four family residential, including condominium and cooperative apartment	\$ 148,429	\$ 96,847
Multifamily residential and residential mixed-use	3,385,375	3,866,788
Commercial real estate and commercial mixed-use	1,350,185	1,170,085
Acquisition, development, and construction ("ADC")	118,365	29,402
Total real estate loans	5,002,354	5,163,122
C&I	336,412	229,504
Consumer	1,772	1,192
Total	5,340,538	5,393,818
Allowance for loans losses	(28,441)	(21,782)
Loans, net	<u>\$ 5,312,097</u>	<u>\$ 5,372,036</u>

The following table presents data regarding the allowance for loan losses activity for the periods indicated:

	<b>Real Estate Loans</b>							
	<b>One-to-Four Family Residential, Including Condominium and Cooperative Apartment</b>	<b>Multifamily Residential and Residential Mixed-Use</b>	<b>Commercial Real Estate and Commercial Mixed-Use</b>	<b>ADC</b>	<b>Total Real Estate</b>	<b>C&amp;I</b>	<b>Consumer Loans</b>	<b>Total</b>
<b>Beginning balance as of January 1, 2017</b>	\$ 145	\$ 16,555	\$ 3,816	\$ —	\$ 20,516	\$ —	\$ 20	\$ 20,536
Provision (credit) for loan losses	(28)	(1,313)	(285)	123	(1,503)	2,021	2	520
Charge-offs	(16)	(104)	—	—	(120)	—	(4)	(124)
Recoveries	15	81	4	—	100	—	1	101
<b>Ending balance as of December 31, 2017</b>	<u>\$ 116</u>	<u>\$ 15,219</u>	<u>\$ 3,535</u>	<u>\$ 123</u>	<u>\$ 18,993</u>	<u>\$ 2,021</u>	<u>\$ 19</u>	<u>\$ 21,033</u>
Provision (credit) for loan losses	239	(1,773)	246	274	(1,014)	3,254	4	2,244
Charge-offs	(169)	(1)	(7)	—	(177)	(1,329)	(5)	(1,511)
Recoveries	12	1	3	—	16	—	—	16
<b>Ending balance as of December 31, 2018</b>	<u>\$ 198</u>	<u>\$ 13,446</u>	<u>\$ 3,777</u>	<u>\$ 397</u>	<u>\$ 17,818</u>	<u>\$ 3,946</u>	<u>\$ 18</u>	<u>\$ 21,782</u>
Provision (credit) for loan losses	86	(3,233)	266	847	(2,034)	19,368	6	17,340
Charge-offs	(22)	(83)	(145)	—	(250)	(10,447)	(8)	(10,705)
Recoveries	7	12	2	—	21	3	—	24
<b>Ending balance as of December 31, 2019</b>	<u>\$ 269</u>	<u>\$ 10,142</u>	<u>\$ 3,900</u>	<u>\$ 1,244</u>	<u>\$ 15,555</u>	<u>\$ 12,870</u>	<u>\$ 16</u>	<u>\$ 28,441</u>

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of the periods indicated:

<b>At or for the Year Ended December 31, 2019</b>								
<b>Real Estate Loans</b>								
	<b>One-to-Four Family Residential, Including Condominium and Cooperative Apartment</b>	<b>Multifamily Residential and Residential Mixed-Use</b>	<b>Commercial Real Estate and Commercial Mixed-Use</b>	<b>ADC</b>	<b>Total Real Estate</b>	<b>C&amp;I</b>	<b>Consumer Loans</b>	<b>Total</b>
<b>Allowance for loan losses:</b>								
Ending allowance balance:								
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,082	\$ —	10,082
Collectively evaluated for impairment	269	10,142	3,900	1,244	15,555	2,788	16	18,359
<b>Total ending allowance balance</b>	<b>\$ 269</b>	<b>\$ 10,142</b>	<b>\$ 3,900</b>	<b>\$ 1,244</b>	<b>\$ 15,555</b>	<b>\$ 12,870</b>	<b>\$ 16</b>	<b>\$ 28,441</b>
<b>Loans:</b>								
Individually evaluated for impairment	\$ —	\$ 153	\$ 60	\$ —	\$ 213	\$ 10,082	\$ —	10,295
Collectively evaluated for impairment	148,429	3,385,222	1,350,125	118,365	5,002,141	326,330	1,772	5,330,243
<b>Total ending loans balance</b>	<b>\$ 148,429</b>	<b>\$ 3,385,375</b>	<b>\$ 1,350,185</b>	<b>\$ 118,365</b>	<b>\$ 5,002,354</b>	<b>\$ 336,412</b>	<b>\$ 1,772</b>	<b>\$ 5,340,538</b>

**At or for the Year Ended December 31, 2018**

	<b>Real Estate Loans</b>							
	<b>One-to-Four Family Residential, Including Condominium and Cooperative Apartment</b>	<b>Multifamily Residential and Residential Mixed-Use</b>	<b>Commercial Real Estate and Commercial Mixed-Use</b>	<b>ADC</b>	<b>Total Real Estate</b>	<b>C&amp;I</b>	<b>Consumer Loans</b>	<b>Total</b>
<b>Allowance for loan losses:</b>								
Ending allowance balance:								
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 230	\$ —	230
Collectively evaluated for impairment	198	13,446	3,777	397	17,818	3,716	18	21,552
<b>Total ending allowance balance</b>	<b>\$ 198</b>	<b>\$ 13,446</b>	<b>\$ 3,777</b>	<b>\$ 397</b>	<b>\$ 17,818</b>	<b>\$ 3,946</b>	<b>\$ 18</b>	<b>21,782</b>
<b>Loans:</b>								
Individually evaluated for impairment	\$ 14	\$ 551	\$ 5,125	\$ —	\$ 5,690	\$ 309	\$ —	5,999
Collectively evaluated for impairment	96,833	3,866,237	1,164,960	29,402	5,157,432	229,195	1,192	5,387,819
<b>Total ending loans balance</b>	<b>\$ 96,847</b>	<b>\$ 3,866,788</b>	<b>\$ 1,170,085</b>	<b>\$ 29,402</b>	<b>\$ 5,163,122</b>	<b>\$ 229,504</b>	<b>\$ 1,192</b>	<b>5,393,818</b>

**Impaired Loans**

A loan is considered impaired when, based on then current information and events, it is probable that all contractual amounts due will not be collected in accordance with the terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays or shortfalls generally are not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank considers TDRs and all non-accrual loans, except non-accrual one-to-four family loans in less than the FNMA Limits, to be impaired. Non-accrual one-to-four family loans equal to or less than the FNMA Limits, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment unless considered a TDR.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: 1) the likely realizable value of a note sale; 2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected to come from liquidation of the collateral; or 3) the present value of estimated future cash flows (using the loan's pre-modification rate for certain performing TDRs). If a TDR is substantially performing in accordance with its restructured terms, management will look to either the potential net liquidation proceeds of the underlying collateral or the present value of the expected cash flows from the debt service in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, generally the likely realizable net proceeds from either a note sale or the liquidation of the collateral is considered when measuring impairment. Measured impairment is either charged off immediately or, in limited instances, recognized as an allocated reserve within the allowance for loan losses.

The following tables summarize impaired loans with no related allowance recorded and with related allowance recorded as of the periods indicated (by collateral type within the real estate loan segment):

	<u>For the Year Ended December 31, 2019</u>			<u>For the Year Ended December 31, 2018</u>		
	<u>Unpaid Principal Balance</u>	<u>Recorded Investment<sup>(1)</sup></u>	<u>Related Allowance</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment<sup>(1)</sup></u>	<u>Related Allowance</u>
<b>With no related allowance recorded:</b>						
One-to-four Family Residential, Including Condominium and Cooperative						
Apartment	\$ —	\$ —	\$ —	\$ 14	\$ 14	\$ —
Multifamily Residential and Residential Mixed-Use	153	153	—	551	551	—
Commercial Real Estate and Commercial Mixed-Use	60	60	—	5,125	5,125	—
<b>Total with no related allowance recorded</b>	<b>213</b>	<b>213</b>	<b>—</b>	<b>5,690</b>	<b>5,690</b>	<b>—</b>
<b>With related allowance recorded:</b>						
C&I	10,082	10,082	10,082	309	309	230
<b>Total with related allowance recorded</b>	<b>10,082</b>	<b>10,082</b>	<b>10,082</b>	<b>309</b>	<b>309</b>	<b>230</b>
Total	\$ 10,295	\$ 10,295	\$ 10,082	\$ 5,999	\$ 5,999	\$ 230

<sup>(1)</sup> The recorded investment excludes accrued interest receivable and loan origination fees, net, due to immateriality.

The following table presents information for impaired loans for the periods indicated:

	<u>For the Year Ended December 31, 2019</u>		<u>For the Year Ended December 31, 2018</u>		<u>For the Year Ended December 31, 2017</u>	
	<u>Average Recorded Investment<sup>(1)</sup></u>	<u>Interest Income Recognized<sup>(2)</sup></u>	<u>Average Recorded Investment<sup>(1)</sup></u>	<u>Interest Income Recognized<sup>(2)</sup></u>	<u>Average Recorded Investment<sup>(1)</sup></u>	<u>Interest Income Recognized<sup>(2)</sup></u>
<b>With no related allowance recorded:</b>						
One-to-four Family Residential, Including Condominium and Cooperative						
Apartment	\$ 9	\$ 9	\$ 18	\$ —	\$ 325	\$ 30
Multifamily Residential and Residential Mixed-Use	415	29	824	53	2,222	85
Commercial Real Estate and Commercial Mixed-Use	3,765	244	6,150	349	7,815	307
<b>Total with no related allowance recorded</b>	<b>4,189</b>	<b>282</b>	<b>6,992</b>	<b>402</b>	<b>10,362</b>	<b>422</b>
<b>With related allowance recorded:</b>						
C&I	5,125	13	298	3	—	—
<b>Total with related allowance recorded</b>	<b>5,125</b>	<b>13</b>	<b>298</b>	<b>3</b>	<b>—</b>	<b>—</b>
<b>Ending balance</b>	<b>\$ 9,314</b>	<b>\$ 295</b>	<b>\$ 7,290</b>	<b>\$ 405</b>	<b>\$ 10,362</b>	<b>\$ 422</b>

(1) The recorded investment excludes accrued interest receivable and loan origination fees, net, due to immateriality.

(2) Cash basis interest and interest income recognized on accrual basis approximate each other.

The following is a summary of the past due status of the Company's investment in loans (excluding accrued interest) as of the dates indicated:

<b>At December 31, 2019</b>							
	<b>30 to 59 Days Past Due</b>	<b>60 to 89 Days Past Due</b>	<b>Accruing Loans 90 Days or More Past Due</b>	<b>Non- accrual <sup>(1)</sup></b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>
<b>Real Estate:</b>							
One-to-four family residential, including condominium and cooperative apartment	\$ 417	\$ —	\$ —	\$ 794	\$ 1,211	\$ 147,218	\$ 148,429
Multifamily residential and residential mixed-use	214	—	1,169	153	1,536	3,383,839	3,385,375
Commercial real estate and commercial mixed-use	—	—	364	60	424	1,349,761	1,350,185
ADC	—	—	—	—	—	118,365	118,365
<b>Total real estate</b>	<b>631</b>	<b>—</b>	<b>1,533</b>	<b>1,007</b>	<b>3,171</b>	<b>4,999,183</b>	<b>5,002,354</b>
C&I	44	—	—	10,082	10,126	326,286	336,412
Consumer	6	1	—	2	9	1,763	1,772
<b>Total</b>	<b>\$ 681</b>	<b>\$ 1</b>	<b>\$ 1,533</b>	<b>\$ 11,091</b>	<b>\$ 13,306</b>	<b>\$ 5,327,232</b>	<b>\$ 5,340,538</b>

<sup>(1)</sup> Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2019.

<b>At December 31, 2018</b>							
	<b>30 to 59 Days Past Due</b>	<b>60 to 89 Days Past Due</b>	<b>Accruing Loans 90 Days or More Past Due</b>	<b>Non- accrual <sup>(1)</sup></b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>
<b>Real Estate:</b>							
One-to-four family residential, including condominium and cooperative apartment	\$ 312	\$ —	\$ —	\$ 712	\$ 1,024	\$ 95,823	\$ 96,847
Multifamily residential and residential mixed-use	—	—	100	280	380	3,866,408	3,866,788
Commercial real estate and commercial mixed-use	—	—	—	1,041	1,041	1,169,044	1,170,085
ADC	—	—	—	—	—	29,402	29,402
<b>Total real estate</b>	<b>312</b>	<b>—</b>	<b>100</b>	<b>2,033</b>	<b>2,445</b>	<b>5,160,677</b>	<b>5,163,122</b>
C&I	50	49	—	309	408	229,096	229,504
Consumer	12	1	—	3	16	1,176	1,192
<b>Total</b>	<b>\$ 374</b>	<b>\$ 50</b>	<b>\$ 100</b>	<b>\$ 2,345</b>	<b>\$ 2,869</b>	<b>\$ 5,390,949</b>	<b>\$ 5,393,818</b>

<sup>(1)</sup> Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2018.

Accruing Loans 90 Days or More Past Due:

The Bank continued accruing interest on two real estate loans with an outstanding balance of \$1,533 at December 31, 2019, and one real estate loan with an aggregate outstanding balance of \$100 at December 31, 2018, all of which were 90 days or more past due on their respective contractual maturity dates. These loans continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payments due at maturity. These loans were well secured and were expected to be refinanced, and, therefore, remained on accrual status and were deemed performing assets at the dates indicated above.



## TDRs

There were no outstanding TDRs at December 31, 2019. The following table summarizes outstanding TDRs by underlying collateral type as of the dates indicated:

	As of December 31, 2018	
	No. of Loans	Balance
One-to-four family residential, including condominium and cooperative apartment	1	\$ 14
Multifamily residential and residential mixed-use	2	271
Commercial real estate and commercial mixed-use	1	4,084
<b>Total real estate</b>	<b>4</b>	<b>\$ 4,369</b>

Accrual status for TDRs is determined separately for each TDR in accordance with the Bank's policies for determining accrual or non-accrual status. 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 on either 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. There were no TDRs on non-accrual status at December 31, 2018.

The Company has not restructured any C&I or troubled consumer loans, as its C&I and consumer loan portfolios have not experienced any problem issues warranting restructuring. Therefore, all TDRs were collateralized by real estate at December 31, 2018.

There were no loans modified in a manner that met the criteria of a TDR during the year ended December 31, 2019, 2018 or 2017.

The Bank's allowance for loan losses at December 31, 2019 and 2018 included no allocated reserve associated with TDRs. Activity related to reserves associated with TDRs was immaterial during the years ended December 31, 2019 and 2018.

As of December 31, 2019 and December 31, 2018, the Bank had no loan commitments to borrowers with outstanding TDRs.

A TDR is considered to be in payment default once it is 90 days contractually past due under the modified terms. All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any.

There were no TDRs which defaulted within twelve months following the modification during the years ended December 31, 2019, 2018 or 2017 (thus no significant impact to the allowance for loan losses during those periods).

The Bank may grant short term extensions ranging from 6 to 12 months on certain loans to borrowers. These loans do not meet the definition of a TDR as they are modifications to borrowers who are not experiencing financial difficulty.

## Credit Quality Indicators

On a quarterly basis, the Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit structure, loan documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them as to credit risk. This analysis includes all loans, such as multifamily residential, mixed-use residential (*i.e.*, loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but 50% or more of such income is generated from the residential units), commercial real estate, mixed-use commercial real estate (*i.e.*, loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but over 50% of such income is generated from the commercial units), ADC, C&I, as well as all one-to- four family residential and cooperative and condominium apartment loans. The Company uses the following definitions for risk ratings:

*Special Mention* – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

*Substandard* – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

*Doubtful* – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of then existing facts, conditions, and values, highly questionable and improbable.

The following is a summary of the credit risk profile of real estate loans (including deferred costs) by internally assigned grade as of the dates indicated:

	<b>Balance at December 31, 2019</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<b>Real Estate:</b>					
One-to-four family residential, including condominium and cooperative apartment	\$ 147,635	\$ —	\$ 794	\$ —	\$ 148,429
Multifamily residential and residential mixed-use	3,319,226	14,606	51,543	—	3,385,375
Commercial real estate and commercial mixed-use	1,334,518	4,840	10,827	—	1,350,185
ADC	118,365	—	—	—	118,365
Total real estate	4,919,744	19,446	63,164	—	5,002,354
<b>C&amp;I</b>	325,296	1,034	—	10,082	336,412
<b>Total Real Estate and C&amp;I</b>	<u>\$ 5,245,040</u>	<u>\$ 20,480</u>	<u>\$ 63,164</u>	<u>\$ 10,082</u>	<u>\$ 5,338,766</u>

	<b>Balance at December 31, 2018</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<b>Real Estate:</b>					
One-to-four family residential, including condominium and cooperative apartment	\$ 95,782	\$ —	\$ 1,065	\$ —	\$ 96,847
Multifamily residential and residential mixed-use	3,829,643	32,682	4,463	—	3,866,788
Commercial real estate and commercial mixed-use	1,162,429	1,209	6,447	—	1,170,085
ADC	29,402	—	—	—	29,402
Total real estate	5,117,256	33,891	11,975	—	5,163,122
<b>C&amp;I</b>	228,924	—	580	—	229,504
<b>Total Real Estate and C&amp;I</b>	<u>\$ 5,346,180</u>	<u>\$ 33,891</u>	<u>\$ 12,555</u>	<u>\$ —</u>	<u>\$ 5,392,626</u>

For consumer loans, the Company evaluates credit quality based on payment activity. Consumer loans that are 90 days or more past due are placed on non-accrual status, while all remaining consumer loans are classified and evaluated as performing. The following is a summary of the credit risk profile of consumer loans by internally assigned grade:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
Performing	\$ 1,770	\$ 1,189
Non-accrual	2	3
<b>Total</b>	<u>\$ 1,772</u>	<u>\$ 1,192</u>

## 8. LOAN SECURITIZATION

During the year ended December 31, 2017, the Bank completed a securitization of \$280,186 of its multifamily loans through a Federal Home Loan Mortgage Corporation (“FHLMC”) sponsored “Q-deal” securitization completed in December 2017. As a result of the securitization, the Company recognized a gain of \$1,261 from the sale of loans. Four classes of FHLMC guaranteed structured pass-through certificates were issued and purchased entirely by the Bank. As part of the securitization transaction, the Bank entered into a Servicing Agreement, general representations and warranties, and reimbursement obligations.

Servicing responsibilities on loan sales generally include obligations to collect and remit payments of principal and interest, provide foreclosure services, manage payments of tax and insurance, and otherwise administer the underlying loans. In connection with the securitization transaction, FHLMC was designated as the master servicer and appointed the Company to perform sub-servicing responsibilities, which generally include the servicing responsibilities described above with exception to the servicing of foreclosed or defaulted loans. The overall management, servicing, and resolution of defaulted loans and foreclosed loans are separately designated to the special servicer, a third party institution that is independent of the master servicer and the Company. The master servicer has the right to terminate the Company in its role as sub-servicer and direct such responsibilities accordingly.

General representations and warranties associated with loan sales and securitization sales require the Company to uphold various assertions that pertain to the underlying loans at the time of the transaction, including, but not limited to, compliance with relevant laws and regulations, absence of fraud, enforcement of liens, no environmental damages, and maintenance of relevant environmental insurance. Such representations and warranties are limited to those that do not meet the quality represented at the transaction date and do not pertain to a decline in value or future payment defaults. In circumstances where the Company breaches its representations and warranties, the Company would generally be required to cure such instances through a repurchase or substitution of the subject loan(s).

With respect to the securitization transaction, the Company also has continuing involvement through a reimbursement agreement executed with Freddie Mac. To the extent the ultimate resolution of defaulted loans results in contractual principal and interest payments that are deficient, the Company is obligated to reimburse FHLMC for such amounts, not to exceed 10% of the original principal amount of the loans comprising the securitization pool at the closing date. The Bank carried a liability of \$420 as of both December 31, 2019 and December 31, 2018 for the exposure to the reimbursement agreement with FHLMC.

## 9. LOAN SERVICING ACTIVITIES

The Bank services real estate and C&I loans for others having principal balances outstanding of approximately \$331,009 and \$313,584 at December 31, 2019 and 2018, respectively. Loans serviced for others are not reported as assets. Servicing loans for others generally consists of collecting loan payments, maintaining escrow accounts, disbursing payments to investors, paying taxes and insurance and processing foreclosure. In connection with loans serviced for others, the Bank held borrowers' escrow balances of \$3,295 and \$3,022 at December 31, 2019 and 2018, respectively.

There are no restrictions on the Company's consolidated assets or liabilities related to loans sold with servicing rights retained. Upon sale of these loans, the Company recorded an SRA in other assets, and has elected to account for the SRA under the "amortization method" prescribed under GAAP. At December 31, 2019, there is no associated valuation allowance for SRAs. The activity for SRAs for the periods indicated are as follows:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning of the year	\$ 1,315	\$ 1,594	\$ 152
Additions	509	72	1,491
Amortized to expense	(365)	(351)	(49)
End of year	<u>\$ 1,459</u>	<u>\$ 1,315</u>	<u>\$ 1,594</u>

The fair-value of servicing rights approximates carrying value as of December 31, 2019. Fair value at December 31, 2019 was determined using a discount rates ranging from 5.0% to 12.0%, prepayment speeds ranging from 5% to 20%, depending on the stratification of the specific servicing right, and a weighted average default rate of 1.30%.

## 10. PREMISES AND FIXED ASSETS, NET AND PREMISES HELD FOR SALE

The following is a summary of premises and fixed assets, net:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
Land	\$ 1,424	\$ 1,600
Buildings	10,630	10,934
Leasehold improvements	23,687	23,154
Furniture, fixtures and equipment	25,068	23,834
Premises and fixed assets, gross	<u>\$ 60,809</u>	<u>\$ 59,522</u>
Less: accumulated depreciation and amortization	<u>(39,117)</u>	<u>(34,809)</u>
Premises and fixed assets, net	<u>\$ 21,692</u>	<u>\$ 24,713</u>

Depreciation and amortization expense amounted to approximately \$4,740, \$3,903 and \$3,310 during the years ended December 31, 2019, 2018 and 2017, respectively.

There were no sales of premises and fixed assets during the year ended December 31, 2019 or 2018. During the year ended December 31, 2017, the Company completed the sale of premises held for sale with an aggregate recorded balance of \$1,379 at December 31, 2016. Net proceeds from the sale were \$11,791, and a gain of \$10,412 was recognized on the sale.

During the year ended December 31, 2019, the Company re-classified certain real estate utilized as a retail branch to premises held for sale. The aggregate recorded balance of the premises held for sale was \$514 at December 31, 2019, the outstanding balance upon transfer. The net proceeds from the sale are expected to exceed the current book value.

## 11. LEASES

Maturities of the Company's operating lease liabilities at December 31, 2019 are as follows:

	<b>Rent to be Capitalized</b>
2020	\$ 6,852
2021	6,774
2022	6,519
2023	5,553
2024	5,663
Thereafter	18,981
Total undiscounted lease payments	<u>50,342</u>
Less amounts representing interest	<u>6,244</u>
Lease liability	<u>\$ 44,098</u>

Other information related to our operating leases was as follows:

Operating lease cost	<b>Year Ended December 31, 2019</b> <u>6,588</u>
Weighted average remaining lease term	<b>At December 31, 2019</b> <u>8.08 years</u>
Weighted average discount rate	<u>3.25%</u>

The cash paid for amounts included in the measurement of operating lease liabilities for the year ended December 31, 2019, was \$6,907. During the year ended December 31, 2019, the Company obtained \$1,547 of additional right-of-use assets in exchange for new operating lease liabilities.

## 12. FHLB NY CAPITAL STOCK

The Bank is a member of the FHLB NY. Membership requires the purchase of shares of FHLB NY capital stock at \$100 per share. The Bank owned 560,186 shares and 575,508 shares at December 31, 2019 and 2018, respectively. The Bank recorded dividend income on the FHLB NY capital stock of \$3,574, \$3,610 and \$2,555 during the years ended December 31, 2019, 2018 and 2017, respectively.

## 13. DUE TO DEPOSITORS

Deposits are summarized as follows:

	<b>At December 31, 2019</b>		<b>At December 31, 2018</b>	
	<b>Weighted Average Rate</b>	<b>Liability</b>	<b>Weighted Average Rate</b>	<b>Liability</b>
Savings accounts	0.35%	\$ 374,265	0.06%	\$ 336,669
Certificates of deposit ("CDs")	2.05	1,572,869	1.97	1,410,037
Money market accounts	1.03	1,705,451	1.43	2,098,599
Interest-bearing checking accounts	0.08	151,491	0.08	115,972
Non-interest bearing checking accounts	—	478,549	—	395,477
TOTAL	<u>1.19%</u>	<u>\$ 4,282,625</u>	<u>1.33%</u>	<u>\$ 4,356,754</u>

The following table presents a summary of scheduled maturities of CDs outstanding at December 31, 2019:

	<b>Maturing Balance</b>	<b>Weighted Average Interest Rate</b>
2020	\$ 1,313,361	2.06%
2021	134,810	1.71
2022	92,034	2.43
2023	16,196	2.25
2024	11,827	1.85
2025 and beyond	4,641	1.59
<b>TOTAL</b>	<b>\$ 1,572,869</b>	<b>2.05%</b>

CDs that met or exceeded the Federal Deposit Insurance Corporation (“FDIC”) Insurance limit of \$250 were \$317,650 and \$287,834 December 31, 2019 and 2018, respectively.

#### 14. DERIVATIVES AND HEDGING ACTIVITIES

##### Cash Flow Hedges of Interest Rate Risk

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's loan portfolio.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The Company uses such derivatives to hedge the variable cash flows associated with existing or forecasted issuances of short term borrowings debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Loss and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in Accumulated Other Comprehensive Loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that an additional \$1,421 will be reclassified as an increase to interest expense.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of the periods indicated.

	<b>At December 31, 2019</b>				<b>At December 31, 2018</b>			
	<b>Count</b>	<b>Notional Amount</b>	<b>Fair Value Assets</b>	<b>Fair Value Liabilities</b>	<b>Count</b>	<b>Notional Amount</b>	<b>Fair Value Assets</b>	<b>Fair Value Liabilities</b>
Included in other assets/(liabilities):								
Interest rate swaps related to FHLBNY advances	7	\$ 130,000	\$ 1,081	\$ —	7	\$ 135,000	\$ 4,669	\$ —
Interest rate swaps related to FHLBNY advances	19	315,000	—	(7,718)	7	110,000	—	(2,097)

The table below presents the effect of the cash flow hedge accounting on Accumulated Other Comprehensive Loss as of December 31, 2019, 2018 and 2017.

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b><u>Interest rate products</u></b>			
Amount of gain (loss) recognized in other comprehensive income	\$ (8,254)	\$ (758)	\$ 511
Amount of (gain) loss reclassified from other comprehensive income into interest expense	(955)	(692)	283

The Company's agreements with each of its derivative counterparties state that if the Company defaults on any of its indebtedness, it could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty.

The Company's agreements with certain of its derivative counterparties state that if the Bank fails to maintain its status as a well-capitalized institution, the Bank could be required to terminate its derivative positions with the counterparty.

As of December 31, 2019, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$6,747. If the Company had breached any of the above provisions at December 31, 2019, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty. There were no provisions breached for the period ended December 31, 2019.

#### Freestanding Derivatives

During 2019, the Company began to offer loan level derivatives with certain borrowers as part of the Company's interest-rate risk management strategy for its loan portfolio and to generate loan level derivative income. In general, this interest rate swap product is designed such that the borrower synthetically attains a fixed-rate loan, by entering into an interest rate swap contract with the Company, while the Company receives floating rate loan payments. The Company offsets the customer-level interest rate swap exposure by entering into an offsetting interest rate swap with an unaffiliated counterparty institution. These interest rate swaps do not qualify as designated hedges, under ASU 815; therefore, each interest rate swap is accounted for as a freestanding derivative. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The following table reflects freestanding derivatives included in the Consolidated Statements of Financial Condition as of the period indicated:

	<b>At December 31, 2019</b>			
	<b>Count</b>	<b>Notional Amount</b>	<b>Fair Value Assets</b>	<b>Fair Value Liabilities</b>
Included in other assets/(liabilities):				
Loan level interest rate swaps with borrower	7	\$ 61,038	\$ 1,347	\$ —
Loan level interest rate swaps with borrower	1	7,205	—	(15)
Loan level interest rate swaps with third-party counterparties	7	61,038	—	(1,347)
Loan level interest rate swaps with third-party counterparties	1	7,205	15	—

These freestanding derivatives did not have a material impact on the Company's results of operation or financial condition.

Loan level derivative income is recognized on the mark-to-market of the interest rate swap as a fair value adjustment at the time the transaction is closed. Total loan level derivative income for the year ended December 31, 2019 was \$910.

The interest rate swap product with the borrower is cross collateralized with the underlying loan and therefore there is no posted collateral. Certain interest rate swap agreements with third-party counterparties contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. As of December 31, 2019, posted collateral was \$1,050.

## **15. FHLB NY ADVANCES**

The Bank had borrowings from the FHLB NY ("Advances") totaling \$1,092,250 and \$1,125,350 at December 31, 2019 and 2018, respectively, all of which were fixed rate. The average interest cost of FHLB NY Advances on a gross basis was 2.25%, 2.00%, and 1.60% during the years ended December 31, 2019, 2018 and 2017, respectively. The average interest cost of FHLB NY Advances on a net of swap impact basis was 2.16%, 1.93%, and 1.63% during the years ended December 31, 2019, 2018 and 2017, respectively. The average interest rate on outstanding FHLB NY Advances was 1.98% and 2.27% at December 31, 2019 and 2018, respectively. In

accordance with its Advances, Collateral Pledge and Security Agreement with the FHLBNY, the Bank was eligible to borrow up to \$1,806,604 as of December 31, 2019 and \$2,145,563 as of December 31, 2018, and maintained sufficient qualifying collateral, as defined by the FHLBNY, with the FHLBNY (principally real estate loans), to secure Advances in excess of its borrowing limit at both December 31, 2019 and 2018. Certain FHLBNY Advances may contain call features that may be exercised by the FHLBNY. At December 31, 2019 there were no callable Advances. Prepayment penalties were associated with all fixed-rate Advances outstanding as of December 31, 2019 and 2018.

During the year ended December 31, 2019, the Bank extinguished \$313,900 of FHLBNY Advances that had a weighted average rate of 2.35%. The prepayment penalty expense was \$3,780, recognized as a loss on the extinguishment of debt. There were no prepayments of FHLBNY Advances during the years ended December 31, 2018 or 2017.

The following table presents a summary of scheduled maturities of FHLBNY Advances outstanding at December 31, 2019:

	<u>Maturing Balance</u>	<u>Weighted Average Interest Rate</u>
2020	933,800	1.89%
2021	130,150	2.39%
2022	28,300	2.93%
TOTAL	<u>\$ 1,092,250</u>	<u>1.98%</u>

## 16. SUBORDINATED NOTES PAYABLE

During the year ended December 31, 2017, the Holding Company issued \$115,000 of fixed-to-floating rate subordinated notes due June 2027, which become callable commencing on June 15, 2022. The notes will mature on June 15, 2027 (the "Maturity Date"). From and including June 13, 2017 until but excluding June 15, 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%. From and including June 15, 2022 to, but excluding, the Maturity Date or earlier redemption date, the interest rate shall reset quarterly to an annual interest rate equal to the then-current three-month LIBOR plus 266 basis points, payable quarterly in arrears. Debt issuance cost directly associated with subordinated debt offering was capitalized and netted with subordinated notes payable on the Consolidated Statements of Financial Condition. Interest expense related to the subordinated debt was \$5,322, \$5,322 and \$2,937 during the years ended December 31, 2019, 2018, and 2017, respectively.

## 17. TRUST PREFERRED SECURITIES PAYABLE

On March 19, 2004, the Holding Company completed an offering of trust preferred securities through Dime Community Capital Trust I, an unconsolidated special purpose entity formed for the purpose of the offering. The trust preferred securities bear a fixed interest rate of 7.0%, mature on April 14, 2034, and became callable without penalty at any time on or after April 15, 2009. The outstanding balance of the trust preferred securities was \$70,680 at December 31, 2016.

During the year ended December 31, 2017, the Company redeemed its \$70,680 of trust preferred securities borrowings at par from third parties. The Company recognized a \$1,272 loss from extinguishment of debt from the acceleration of the remaining unamortized deferred origination costs.

There was no interest expenses recorded on the trust preferred securities during the year ended December 31, 2019 or 2018. Interest expense recorded on the trust preferred securities totaled \$2,708 during the year ended December 31, 2017.

## 18. OTHER BORROWINGS

Other borrowings consists of unsecured, overnight or short-term borrowings with member commercial banks within a network of financial institutions. The availability of funds changes daily. As of December 31, 2019, the Bank had \$110,000 of such borrowings outstanding. Interest expense for the year ended December 31, 2019 was \$226. There were no such borrowings during 2018 or 2017.

## 19. INCOME TAXES

The Company's consolidated Federal, State and City income tax provisions were comprised of the following:

	<u>Year Ended December 31, 2019</u>			<u>Year Ended December 31, 2018</u>			<u>Year Ended December 31, 2017</u>		
	<u>Federal</u>	<u>State and City</u>	<u>Total</u>	<u>Federal</u>	<u>State and City</u>	<u>Total</u>	<u>Federal</u>	<u>State and City</u>	<u>Total</u>
Current	\$ 10,129	\$ 2,930	\$ 13,059	\$ 12,226	\$ 4,008	\$ 16,234	\$ 20,818	\$ 5,523	\$ 26,341
Deferred	(1,437)	(946)	(2,383)	(554)	(253)	(807)	8,334	2,181	10,515
TOTAL	<u>\$ 8,692</u>	<u>\$ 1,984</u>	<u>\$ 10,676</u>	<u>\$ 11,672</u>	<u>\$ 3,755</u>	<u>\$ 15,427</u>	<u>\$ 29,152</u>	<u>\$ 7,704</u>	<u>\$ 36,856</u>

The preceding table excludes tax effects recorded directly to stockholders' equity in connection with unrealized gains and losses on securities available-for-sale (including losses on such securities upon their transfer to held-to-maturity), interest rate derivatives, and adjustments to other comprehensive income relating to the minimum pension liability, unrecognized gains of pension and other postretirement obligations and changes in the non-credit component of OTTI. These tax effects are disclosed as part of the presentation of the consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income.

The provision for income taxes differed from that computed at the Federal statutory rate as follows:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Tax at Federal statutory rate	\$ 9,841	\$ 14,010	\$ 31,058
State and local taxes, net of federal income tax benefit	1,567	2,967	5,008
Benefit plan differences	(261)	(312)	(535)
Adjustments for prior period returns and tax items	19	(693)	84
Investment in BOLI	(594)	(605)	(776)
Enactment of federal tax reform	—	—	3,135
Equity based compensation	(33)	(128)	(1,283)
Other, net	137	188	165
<b>TOTAL</b>	<b>\$ 10,676</b>	<b>\$ 15,427</b>	<b>\$ 36,856</b>
Effective tax rate	<u>22.78%</u>	<u>23.12%</u>	<u>41.53%</u>

Deferred tax assets and liabilities are recorded for temporary differences between the book and tax bases of assets and liabilities. The components of Federal, State and City deferred income tax assets and liabilities were as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 9,083	\$ 7,071
Employee benefit plans	6,988	6,809
Tax effect of purchase accounting fair value adjustments	270	291
Tax effect of other components of income on securities available-for-sale and derivatives	2,100	948
Operating lease liability	13,958	—
Other	3	2,112
Total deferred tax assets	<u>32,402</u>	<u>17,231</u>
<b>Deferred tax liabilities:</b>		
Tax effect of other components of income on securities available-for-sale and derivatives	2,283	827
Difference in book and tax carrying value of fixed assets	1,486	1,497
Difference in book and tax basis of unearned loan fees	2,787	2,986
Operating lease asset	11,983	—
Other	571	527
Total deferred tax liabilities	<u>19,110</u>	<u>5,837</u>
Net deferred tax asset (recorded in other assets)	<u>\$ 13,292</u>	<u>\$ 11,394</u>

On December 22, 2017, the President signed into law the Tax Act. The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. 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 generally accepted accounting principles, 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 a result of the reduction in the corporate income tax rate from 35% to 21%, the Company recorded tax expense of \$3,135 during the year ended December 31, 2017.

Also on December 22, 2017, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 118 ("SAB 118") to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Act in situations where a registrant did not have the necessary information available, prepared, or analyzed in reasonable detail to complete this accounting in the reporting period that included the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Tax Act's enactment date to complete the necessary accounting.



As of December 31, 2017, the Company recorded provisional adjustments of income tax effects of certain elements of the Tax Act, such as the accelerated depreciation which allows for full expensing of qualified property purchased and placed into service after September 27, 2017 and the Company has made no adjustments to deferred tax assets representing future deductions for accrued compensation that may be subject to new limitations under Internal Revenue Code 162(m) which, generally, limits the annual deduction for certain compensation paid to certain employees to \$1 million. The accounting for these items was finalized in 2018 with no material impact on income tax expense.

No valuation allowances were recognized on deferred tax assets during the years ended December 31, 2019 or 2018, since, at each period end, it was deemed more likely than not that the deferred tax assets would be fully realized.

At December 31, 2019 and 2018, the Bank had accumulated bad debt reserves totaling \$15,158 for which no provision for income tax was required to be recorded. 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. Should the reserves as of December 31, 2019 be fully recaptured, the Bank would recognize \$5,042 in additional income tax expense. The Company expects to take no action in the foreseeable future that would require the establishment of a tax liability associated with these bad debt reserves.

The Company is subject to regular examination by various tax authorities in jurisdictions in which it conducts significant business operations. The Company regularly assesses the likelihood of additional examinations in each of the tax jurisdictions resulting from ongoing assessments.

Under current accounting rules, all tax positions adopted are subjected to two levels of evaluation. Initially, a determination is made, based on the technical merits of the position, as to whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. In conducting this evaluation, management is required to presume that the position will be examined by the appropriate taxing authority possessing full knowledge of all relevant information. The second level of evaluation is the measurement of a tax position that satisfies the more-likely-than-not recognition threshold. This measurement is performed in order to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. The Company had no unrecognized tax benefits as of December 31, 2019 or 2018. The Company does not anticipate any material change to unrecognized tax benefits during the year ending December 31, 2020.

As of December 31, 2019, the tax years ended December 31, 2016, 2017, 2018, and 2019 remained subject to examination by all of the Company's relevant tax jurisdictions. The 2015 tax year is subject to examination for New Jersey only. The Company is currently not under audit in any taxing jurisdictions.

## **20. KSOP**

The Bank maintains the Dime Community Bank KSOP, which covers substantially all of its employees. The KSOP owned participant investments in Common Stock for the accounts of participants totaling \$42,971 at December 31, 2019 and \$41,863 at December 31, 2018.

The Bank made discretionary contributions totaling \$1,900, \$1,743 and \$1,689 to eligible KSOP participants during the years ended December 31, 2019, 2018 and 2017, respectively. In 2019, this included safe harbor contributions of 3% made to eligible employees as well as an additional 2% discretionary contribution made to eligible employees. In 2018 and 2017, this included safe harbor contributions of 3% made to eligible employees as well as an additional 3% discretionary contribution made to eligible employees. These contributions were recognized as a component of salaries and employee benefits expense.

## **21. EMPLOYEE BENEFIT PLANS**

### **Employee Retirement Plan**

The Bank sponsors the Employee Retirement Plan, a tax-qualified, noncontributory, defined-benefit retirement plan. Prior to April 1, 2000, substantially all full-time employees of at least 21 years of age were eligible for participation after one year of service. Effective April 1, 2000, the Bank froze all participant benefits under the Employee Retirement Plan. For the years ended December 31, 2019 and 2018, the Bank used December 31<sup>st</sup> as its measurement date for the Employee Retirement Plan.

The funded status of the Employee Retirement Plan was as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Accumulated benefit obligation at end of period</b>	\$ 25,405	\$ 23,047
<b>Reconciliation of Projected benefit obligation:</b>		
Projected benefit obligation at beginning of period	\$ 23,047	\$ 26,029
Interest cost	901	852
Actuarial (gain) loss	2,921	(2,293)
Benefit payments	(1,464)	(1,486)
Settlements	—	(55)
Projected benefit obligation at end of period	<u>25,405</u>	<u>23,047</u>
<b>Plan assets at fair value (investments in trust funds managed by trustee)</b>		
Balance at beginning of period	22,557	25,361
Return on plan assets	4,048	(1,296)
Contributions	61	33
Benefit payments	(1,464)	(1,486)
Settlements	—	(55)
Balance at end of period	<u>25,202</u>	<u>22,557</u>
Funded status at end of year	<u>\$ (203)</u>	<u>\$ (490)</u>

The net periodic cost for the Employee Retirement Plan included the following components:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Interest cost	\$ 901	\$ 852	\$ 936
Expected return on plan assets	(1,528)	(1,719)	(1,579)
Amortization of unrealized loss	913	1,045	1,287
Net periodic cost	<u>\$ 286</u>	<u>\$ 178</u>	<u>\$ 644</u>

The change in Accumulated Other Comprehensive Loss that resulted from the Employee Retirement Plan is summarized as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ (8,018)	\$ (8,340)
Amortization of unrealized loss	913	1,045
Loss recognized during the year	(401)	(723)
Balance at the end of the period	<u>\$ (7,506)</u>	<u>\$ (8,018)</u>
Period end component of accumulated other comprehensive loss, net of tax	<u>\$ 5,131</u>	<u>\$ 5,456</u>

Major assumptions utilized to determine the net periodic cost of the Employee Retirement Plan benefit obligations were as follows:

	<b>At or for the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Discount rate used for net periodic cost	4.04%	3.38%	3.82%
Discount rate used to determine benefit obligation at period end	2.97	4.04	3.38
Expected long-term return on plan assets used for net periodic cost	7.00	7.00	7.00
Expected long-term return on plan assets used to determine benefit obligation at period end	7.00	7.00	7.00

The Employee Retirement Plan assets are invested in two diversified investment portfolios of the Pentegra Retirement Trust (the "Trust"). The Trust, a private placement investment trust, has been granted discretion by the Bank to determine the appropriate strategic asset allocations (as governed by its Investment Policy Statement) to meet estimated plan liabilities.

The Employee Retirement Plan's asset allocation targets holding 65% of assets in equity securities via investment in the Long-Term Growth Equity Portfolio ("LTGE"), 34% in intermediate-term bonds via investment in the Long-Term Growth Fixed-Income Portfolio ("LTGFI"), and 1% in a cash equivalents portfolio (for liquidity). Asset rebalancing is performed at least annually, with interim adjustments when the investment mix varies in excess of 10% from the target.

The LTGE is a diversified portfolio of seven registered mutual funds and five common collective trust funds. The LTGE holds a diversified mix of equity funds in order to gain exposure to the U.S. and non-U.S. equity markets. The common collective investment funds held by the LTGE were privately offered, and the Employee Retirement Plan's investment in these common collective investment funds was therefore valued by the fund managers of each respective fund based on the Employee Retirement Plan's proportionate share of units of beneficial interest in the respective funds. All of the common collective investment funds are audited, and the overwhelming majority of assets held in these funds (which derive the unit value of the common collective investment funds) are actively traded in established marketplaces. The seven registered mutual funds held by the LTGE are all actively traded on national securities exchanges and are valued at their quoted market prices.

The LTGFI is a diversified portfolio that invests in four intermediate-term bond funds, all of which are registered mutual funds. These mutual funds are actively traded on national securities exchanges and are valued at their quoted market prices.

The investment goal is to achieve investment results that will contribute to the proper funding of the Employee Retirement Plan by exceeding the rate of inflation over the long-term. In addition, investment managers for the trust function managing the assets of the Employee Retirement Plan are expected to provide a reasonable return on investment. Performance volatility is also monitored. Risk and volatility are further managed by the distinct investment objectives of each of the trust funds and the diversification within each fund.

The weighted average allocation by asset category of the assets of the Employee Retirement Plan was summarized as follows:

Asset Category	At December 31,	
	2019	2018
Equity securities	62%	58%
Debt securities (bond mutual funds)	35	39
Cash equivalents	3	3
Total	100%	100%

The allocation percentages in the above table were consistent with future planned allocation percentages as of December 31, 2019 and 2018, respectively.

The following tables present a summary of the Employee Retirement Plan's investments measured at fair value on a recurring basis by level within the fair value hierarchy, as of the dates indicated. (See Note 24 for a discussion of the fair value hierarchy).

Description	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds (all registered and publicly traded):				
Domestic Large Cap	\$ 3,058	\$ —	\$ —	\$ 3,058
Domestic Mid Cap	1,320	—	—	1,320
Domestic Small Cap	933	—	—	933
International Equity	3,605	—	—	3,605
Fixed Income	8,874	—	—	8,874
Cash equivalents	612	—	—	612
Common collective investment funds:				
Domestic Large Cap	—	5,214	—	5,214
Domestic Mid Cap	—	653	—	653
Domestic Small Cap	—	933	—	933
<b>Total Plan Assets</b>				<b>\$ 25,202</b>

**Fair Value Measurements  
at December 31, 2018**

<b>Description</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Mutual Funds (all registered and publicly traded) :				
Domestic Large Cap	\$ 2,546	\$ —	\$ —	\$ 2,546
Domestic Mid Cap	1,080	—	—	1,080
Domestic Small Cap	737	—	—	737
International Equity	2,507	—	—	2,507
Fixed Income	8,756	—	—	8,756
Cash equivalents	650	—	—	650
Common collective investment funds:				
Domestic Large Cap	—	4,295	—	4,295
Domestic Mid Cap	—	550	—	550
Domestic Small Cap	—	844	—	844
International Equity	—	592	—	592
<b>Total Plan Assets</b>				<b>\$ 22,557</b>

The expected long-term rate of return assumptions on Employee Retirement Plan assets were established based upon historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the Employee Retirement Plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real annual rates of return in the ranges of 2.5% to 9.5% and (1.0)% to 6.0%, respectively. The long-term inflation rate was estimated to be 2.0%. When these overall return expectations were applied to the Employee Retirement Plan's target allocation, the expected annual rate of return was determined to be 7.00% at both December 31, 2019 and 2018.

The Bank contributed \$61 to the Employee Retirement Plan during the year ended December 31, 2019. The Bank expects to make contributions in the amount of \$58 to the Employee Retirement Plan during the year ending December 31, 2020. During the year ending December 31, 2020, actuarial losses of \$914 related to the Employee Retirement Plan are anticipated to be recognized as a component of net periodic cost.

Benefit payments are anticipated to be made as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2020	\$ 1,508
2021	1,531
2022	1,509
2023	1,501
2024	1,508
2025 to 2029	7,027

**BMP and Director Retirement Plan**

The Holding Company and Bank maintain the BMP, which exists in order to compensate executive officers for any curtailments in benefits due to statutory limitations on benefit plans. As of December 31, 2019 and 2018, the BMP had investments, held in a rabbi trust, in the Common Stock of \$2,860 and \$2,334, respectively. Benefit accruals under the defined benefit portion of the BMP were suspended on April 1, 2000, when they were suspended under the Employee Retirement Plan.

Effective July 1, 1996, the Company established the Director Retirement Plan to provide benefits to each eligible outside director commencing upon the earlier of termination of Board service or at age 75. The Director Retirement Plan was frozen on March 31, 2005, and only outside directors serving prior to that date are eligible for benefits.

As of December 31, 2019 and 2018, the Bank used December 31<sup>st</sup> as its measurement date for both the BMP and Director Retirement Plan.

The combined funded status of the defined benefit portions of the BMP and the Director Retirement Plan was as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Accumulated benefit obligation at end of period</b>	\$ 9,360	\$ 9,596
<b>Reconciliation of projected benefit obligation:</b>		
Projected benefit obligation at beginning of period	\$ 9,596	\$ 10,364
Interest cost	351	313
Benefit payments	(771)	(770)
Actuarial (gain) loss	184	(311)
Projected benefit obligation at end of period	<u>9,360</u>	<u>9,596</u>
<b>Plan assets at fair value:</b>		
Balance at beginning of period	—	—
Contributions	771	770
Benefit payments	(771)	(770)
Balance at end of period	<u>—</u>	<u>—</u>
Funded status at end of the year	<u>\$ (9,360)</u>	<u>\$ (9,596)</u>

The combined net periodic cost for the defined benefit portions of the BMP and the Director Retirement Plan included the following components:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Interest cost	\$ 351	\$ 313	\$ 379
Amortization of unrealized loss	59	109	147
Net periodic cost	<u>\$ 410</u>	<u>\$ 422</u>	<u>\$ 526</u>

The combined change in Accumulated Other Comprehensive Loss that resulted from the BMP and Director Retirement Plan is summarized as follows:

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	\$ (1,369)	\$ (1,789)
Amortization of unrealized loss	59	109
Gain (Loss) recognized during the year	(184)	311
Balance at the end of the period	<u>\$ (1,494)</u>	<u>\$ (1,369)</u>
Period end component of accumulated other comprehensive loss, net of tax	<u>\$ 1,021</u>	<u>\$ 1,089</u>

Major assumptions utilized to determine the net periodic cost and benefit obligations for both the BMP and Director Retirement Plan were as follows:

	<b>At or For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Discount rate used for net periodic cost – BMP	3.80%	3.13%	3.46%
Discount rate used for net periodic cost – Director Retirement Plan	3.84	3.17	3.53
Discount rate used to determine BMP benefit obligation at period end	2.60	3.80	3.13
Discount rate used to determine Director Retirement Plan benefit obligation at period end	2.68	3.84	3.17

Both the BMP and Director Retirement Plan are unfunded non-qualified benefit plans that are not anticipated to ever hold assets for investment. Any contributions made to either the BMP or Director Retirement Plan are expected to be used immediately to pay benefits that accrue. The Bank contributed and made benefit payments in the amount of \$546 on behalf of the BMP and \$224 on behalf of the Directors Retirement Plan during the year ending December 31, 2019.

In addition to benefit payments from the defined benefit plan component of the BMP discussed above, retired participants are eligible for distributions from the plan.

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash	\$24	\$514	\$4,629
Market value of Common Stock from Employee Stock Ownership Plan of BMP (685 shares, 102,074 shares, and 365,104 shares for December 31, 2019, 2018, and 2017, respectively)	13	1,963	7,151
Gross lump-sum distribution	\$37	\$2,477	\$11,828
Non-cash tax benefit	\$—	\$619	\$1,454

Actuarial projections performed as of December 31, 2019 assumed the Bank will contribute \$569 to the BMP and \$263 to the Director Retirement Plan during the year ending December 31, 2020 in order to pay benefits due under the respective plans. During the year ending December 31, 2020, actuarial losses of \$23 related to the BMP and \$156 related to the Director Retirement Plan are anticipated to be recognized as a component of net periodic cost.

Combined benefit payments under the BMP and Director Retirement Plan, which reflect expected future service (as appropriate), are anticipated to be made as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 832
2021	821
2022	808
2023	794
2024	809
2025 to 2029	3,688

There is no defined contribution cost incurred by the Holding Company or the Bank under the Director Retirement Plan. Defined contribution costs incurred by the Company related to the BMP were \$230, \$59, and \$336 for the years ended December 31, 2019, 2018 and 2017, respectively.

### **Postretirement Benefit Plan**

The Bank offers the Postretirement Benefit Plan to its retired employees who provided at least five consecutive years of credited service and were active employees prior to April 1, 1991, as follows:

- (1) Qualified employees who retired prior to April 1, 1991 receive the full medical coverage in effect at the time of retirement until their death at no cost to such retirees;
- (2) Qualified employees retiring on or after April 1, 1991 are eligible for medical benefits. Throughout retirement, the Bank will continue to pay the premiums for the coverage not to exceed the premium amount paid for the first year of retirement coverage. Should the premiums increase, the employee is required to pay the differential to maintain full medical coverage.

Postretirement Benefit Plan benefits are available only to full-time employees who commence or commenced collecting retirement benefits from the Retirement Plan immediately upon termination of service from the Bank. The Bank reserves the right at any time, to the extent permitted by law, to change, terminate or discontinue any of the group benefits, and can exercise the maximum discretion permitted by law in administering, interpreting, modifying or taking any other action with respect to the plan or benefits.

The Postretirement Plan was amended effective March 31, 2015 to eliminate plan participation for post-amendment retirees.

The funded status of the Postretirement Benefit Plan was as follows:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
<b>Accumulated benefit obligation at end of period</b>	\$ 1,608	\$ 1,532
<b>Reconciliation of projected benefit obligation:</b>		
Projected benefit obligation at beginning of period	\$ 1,532	\$ 1,768
Interest cost	56	54
Actuarial (gain) loss	186	(200)
Benefit payments	(166)	(90)
Projected benefit obligation at end of period	<u>1,608</u>	<u>1,532</u>
<b>Plan assets at fair value:</b>		
Balance at beginning of period	—	—
Contributions	166	90
Benefit payments	(166)	(90)
Balance at end of period	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (1,608)</u>	<u>\$ (1,532)</u>

The Postretirement Benefit Plan net periodic cost included the following components:

	<u>Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest cost	\$ 56	\$ 54	\$ 59
Amortization of unrealized loss	(20)	(9)	(14)
Net periodic cost	<u>\$ 36</u>	<u>\$ 45</u>	<u>\$ 45</u>

The change in Accumulated Other Comprehensive Loss that resulted from the Postretirement Benefit Plan is summarized as follows:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance at beginning of period	\$ 394	\$ 203
Amortization of unrealized loss	(20)	(9)
Gain (loss) recognized during the year	(186)	200
Balance at the end of the period	<u>\$ 188</u>	<u>\$ 394</u>
Period end component of accumulated other comprehensive loss, net of tax	<u>\$ (128)</u>	<u>\$ (255)</u>

Major assumptions utilized to determine the net periodic cost were as follows:

	<u>At or for the Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate used for net periodic cost	3.82%	3.16%	3.48%
Discount rate used to determine benefit obligation at period end	2.69	3.82	3.16

As of December 31, 2019, an escalation in the assumed medical care cost trend rates by 1% in each year would increase the net periodic cost by approximately \$1. A decline in the assumed medical care cost trend rates by 1% in each year would decrease the net periodic cost by approximately \$1.

As of December 31, 2019 and 2018, the Bank used December 31<sup>st</sup> as its measurement date for the Postretirement Benefit Plan. The assumed medical care cost trend rate used in computing the accumulated Postretirement Benefit Plan obligation was 6.5% for 2019 and was assumed to decrease gradually to 5.0% in 2026 and remain at that level thereafter. An escalation in the assumed medical care cost trend rates by 1% in each year would increase the accumulated Postretirement Benefit Plan obligation by approximately \$21. A decline in the assumed medical care cost trend rates by 1% in each year would reduce the accumulated Postretirement Benefit Plan obligation by approximately \$20.

GAAP provides guidance on both accounting for the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Modernization Act") to employers that sponsor postretirement health care plans which provide prescription drug benefits, and measuring the accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit cost, and the effects of the Modernization Act on the APBO. The Company determined that the benefits provided by the Postretirement Benefit Plan are actuarially equivalent to Medicare Part D under the Modernization Act. The effects of an expected subsidy on payments made under the Postretirement Benefit Plan were treated as an actuarial gain for purposes of calculating the APBO as of December 31, 2019 and 2018.

The Company remains in the process of claiming this subsidy from the government, and, as a result, the Bank cannot determine the amount of subsidy it will ultimately receive.

The Postretirement Benefit Plan is an unfunded non-qualified benefit plan that is not anticipated to ever hold assets for investment. Any contributions made to the Postretirement Benefit Plan are expected to be used immediately to pay benefits that accrue.

Benefit payments under the Postretirement Benefit Plan, which reflect expected future service (as appropriate), are expected to be made as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 109
2021	102
2022	95
2023	85
2024	75
2025 to 2029	280

## 22. STOCK-BASED COMPENSATION

### Stock Option Activity

The Company has made stock option grants to outside Directors and certain officers under the Stock Plans. All option shares granted have a ten-year life. The option shares granted to the outside Directors vest over one year, while the option shares granted to officers vest ratably over four years. The exercise price of each option award was determined based upon the fair market value of the Common Stock on the respective grant dates. Compensation expense is determined based upon the fair value of the option shares on the respective dates of grant, as determined utilizing a recognized option pricing methodology. There was no compensation expense recorded during the years ended December 31, 2019, 2018, or 2017 as all options are fully vested.

There were no stock options granted during the years ended December 31, 2019, 2018 and 2017.

The following table presents a summary of activity related to stock options granted under the Stock Plans, and changes during the period then ended:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Years</u>	<u>Aggregate Intrinsic Value</u>
<b>Options outstanding at January 1, 2018</b>	157,546	\$ 15.53		
Options granted	—	—		
Options expired	(66,372)	17.10		
Options exercised	(18,779)	17.50		
<b>Options outstanding at December 31, 2018</b>	72,395	\$ 13.58	2.0	\$ 246
Options granted	—	—		
Options exercised	(30,364)	12.12		
<b>Options outstanding at December 31, 2019</b>	42,031	\$ 14.63	1.4	263
<b>Options vested and exercisable at December 31, 2019</b>	42,031	\$ 14.63	1.4	\$ 263

Information related to stock options under the Stock Plans during each period is as follows:

	<u>For the Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash received for option exercise cost	\$ 367	\$ 954	\$ 792
Income tax benefit recognized on options exercised	39	44	52
Intrinsic value of options exercised	229	167	314



The range of exercise prices and weighted-average remaining contractual lives of both outstanding and vested options (by option exercise cost) as of December 31, 2019 were as follows:

	<u>Outstanding Options</u>		<u>Vested Options</u>	
	<u>Amount</u>	<u>Weighted Average Contractual Years Remaining</u>	<u>Amount</u>	<u>Weighted Average Contractual Years Remaining</u>
<b>Exercise Prices:</b>				
\$12.75	7,121	0.3	7,121	0.3
\$13.86	9,776	2.3	9,776	2.3
\$15.46	25,134	1.3	25,134	1.3
Total	<u>42,031</u>	<u>1.4</u>	<u>42,031</u>	<u>1.4</u>

### Restricted Stock Awards

The Company has made restricted stock award grants to outside Directors and certain officers under the Stock Plans. Typically awards to outside Directors fully vest on the first anniversary of the grant date, while awards to officers may vest in equal installments over a three or four-year period or at the end of the four-year requisite period. All awards were made at the fair value of the Common Stock on the award date. Compensation expense on all restricted stock awards was thus recorded during the years ended December 31, 2019, 2018 and 2017 based upon the fair value of the shares on the respective dates of grant.

The following table presents a summary of activity related to the restricted stock awards granted under the Stock Plans, and changes during the periods indicated:

	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
<b>Unvested allocated shares outstanding at January 1, 2018</b>	150,567	\$ 18.85
Shares granted	63,612	19.72
Shares vested	(56,742)	18.19
Shares forfeited	(9,202)	18.84
<b>Unvested allocated shares at December 31, 2018</b>	148,235	19.48
Shares granted	171,163	19.89
Shares vested	(52,683)	19.31
Shares forfeited	(10,140)	19.47
<b>Unvested allocated shares at December 31, 2019</b>	<u>256,575</u>	<u>\$ 19.79</u>

Information related to restricted stock awards under the Stock Plans during each period is as follows:

	<u>For the Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Compensation expense recognized	\$ 1,540	\$ 1,240	\$ 1,358
Income tax benefit recognized on vesting of awards	11	22	95
Weighted average remaining years for which compensation expense is to be recognized	2.8	2.4	2.7

### LTIP

During the years ended December 31, 2019, 2018 and 2017, the Company established long term incentive award programs to certain officers that will ultimately be settled in performance shares.

For each award, threshold (50% of target), target (100% of target) and maximum (150% of target) payment opportunities are eligible to be earned over a three-year performance period based on the Company's performance on certain measurement goals. Both the measurement goals and the peer group utilized to determine the Company's performance are established at the onset of the measurement period and cannot be altered subsequently.

Performance based shares awarded to certain officers meet the criteria for equity-based accounting. The following table presents a summary of activity related to performance based equity awards and changes during the period:

	<b>Number of Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
<b>Maximum aggregate share payout at January 1, 2018</b>	69,224	\$ 19.19
Shares granted	81,353	18.55
Shares vested	(3,536)	18.83
Shares forfeited	(26,161)	18.62
<b>Maximum aggregate share payout at December 31, 2018</b>	120,880	18.90
Shares granted	138,562	19.18
Shares vested	(2,276)	17.35
Shares forfeited	(42,218)	19.60
<b>Maximum aggregate share payout at December 31, 2019</b>	<u>214,948</u>	<u>\$ 18.96</u>
<b>Minimum aggregate share payout</b>	<u>—</u>	<u>\$ —</u>
<b>Likely aggregate share payout</b>	<u>92,373</u>	<u>\$ 19.18</u>

Information related to LTIP share awards under the Stock Plans during each period is as follows:

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Compensation expense recognized	\$ 132	\$ 207	\$ 329
Income tax benefit recognized on vesting of awards	—	2	—

#### Sales Incentive Awards

During the year ended December 31, 2018, the Company established the SIP, a sales incentive award program for certain officers, which meets the criteria for equity-based accounting. For each quarter an individual can earn their shares based on their sales performance in that quarter. The shares then vest one year from the quarter in which they are earned. Shares of Common Stock are issued on the grant date and held as unvested stock awards until the end of the performance period. They are issued at the maximum opportunity in order to ensure that an adequate number of shares are allocated for shares expected to vest at the end of the performance period.

The following table presents a summary of activity related to performance based equity awards, and changes during the period then ended:

	<b>Number of Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
<b>Maximum aggregate share payout at January 1, 2018</b>	—	\$ —
Shares granted	21,736	18.40
Shares vested	—	—
Shares forfeited	(13,585)	18.40
<b>Maximum aggregate share payout at December 31, 2018</b>	8,151	\$ 18.40
Shares granted	45,682	19.15
Shares vested	(2,651)	20.53
Shares forfeited	(31,786)	19.02
<b>Maximum aggregate share payout at December 31, 2019</b>	<u>19,396</u>	<u>19.15</u>
<b>Minimum aggregate share payout</b>	<u>—</u>	<u>—</u>
<b>Expected aggregate share payout</b>	<u>17,188</u>	<u>\$ 19.15</u>

Information related to SIP share awards under the Stock Plans during each period is as follows:

	<b>For the Year Ended</b>	
	<b>2019</b>	<b>2018</b>
Compensation expense recognized	\$ 171	\$ 77
Income tax benefit recognized on vesting of awards	1	—

## 23. COMMITMENTS AND CONTINGENCIES

### Loan Commitments and Lines of Credit

The contractual amounts of financial instruments with off-balance sheet risk at year-end were as follows:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Available lines of credit	\$ —	\$ 186,176	\$ —	\$ 102,110
Other loan commitments	3,803	33,086	16,450	133,608
Stand-by letters of credit	2,145	—	1,968	—

At December 31, 2019 and 2018, the Bank had outstanding firm loan commitments that were accepted by the borrower aggregating \$36,890 and \$150,058 respectively. Substantially all of the Bank's commitments expire within three months of their acceptance by the prospective borrower. The credit risk associated with these commitments is based on the loan type which is comprised of multifamily residential, residential mixed-use, commercial real estate, commercial mixed-use, C&I, and one-to-four family residential loans.

At December 31, 2019, the Bank had an available line of credit with the FHLB NY equal to its excess borrowing capacity. At December 31, 2019, this amount approximated \$714,354.

Additionally, in connection with the Loan Securitization (see Note 8), the Bank executed a reimbursement agreement with FHLMC that obligates the Company to reimburse FHLMC for any contractual principal and interest payments on defaulted loans, not to exceed 10% of the original principal amount of the loans comprising the aggregate balance of the loan pool at securitization. The maximum exposure under this reimbursement obligation is \$28,000.

### Litigation

The Company is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. The Company cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, the Company cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a loss will be incurred. In the opinion of management, after consultation with counsel, the resolution of all ongoing legal proceedings will not have a material adverse effect on the consolidated financial condition or results of operations of the Company. The Company accounts for potential losses related to litigation in accordance with GAAP.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1 Inputs* – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

*Level 2 Inputs* – Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

*Level 3 Inputs* – Significant unobservable inputs for the asset or liability. Significant unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Significant unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

### Securities

The Company's marketable equity securities and available-for-sale securities are reported at fair value, which were determined utilizing prices obtained from independent parties. The valuations obtained are based upon market data, and often utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (obtained only from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Prioritization of inputs may vary on any given day based on market conditions.

All MBS and agency notes available-for-sale are guaranteed either implicitly or explicitly by GSEs as of December 31, 2019 or 2018. In accordance with the Company's investment policy, corporate securities are rated "investment grade" at the time of purchase and the financials of the issuers are reviewed annually. Obtaining market values as of December 31, 2019 or 2018 for these securities utilizing significant observable inputs was not difficult due to their considerable demand.

### Derivatives

Derivatives represent interest rate swaps and estimated fair values are based on valuation models using observable market data as of the measurement date.

The following tables present financial assets liabilities measured at fair value on a recurring basis as of the dates indicated, segmented by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value Measurements at December 31, 2019 Using			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Financial Assets</b>				
Marketable equity securities (Registered Mutual Funds):				
Domestic Equity Mutual Funds	\$ 1,657	\$ 1,657	\$ —	\$ —
International Equity Mutual Funds	420	420	—	—
Fixed Income Mutual Funds	3,817	3,817	—	—
Debt securities available-for-sale:				
Agency Notes	19,935	—	19,935	—
Corporate Securities	28,596	—	28,596	—
Pass-through MBS issued by GSEs	247,483	—	247,483	—
Agency CMOs	254,981	—	254,981	—
Derivative – cash flow hedges	1,081	—	1,081	—
Derivative – freestanding derivatives	1,362	—	1,362	—
<b>Financial Liabilities</b>				
Derivative – cash flow hedges	7,718	—	7,718	—
Derivative – freestanding derivatives	1,362	—	1,362	—

	Fair Value Measurements at December 31, 2018 Using			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>Financial Assets</b>				
Marketable equity securities (Registered Mutual Funds):				
Domestic Equity Mutual Funds	\$ 1,420	\$ 1,420	\$ —	\$ —
International Equity Mutual Funds	377	377	—	—
Fixed Income Mutual Funds	3,870	3,870	—	—
Debt securities available-for-sale:				
Agency Notes	25,145	—	25,145	—
Corporate Securities	11,135	—	11,135	—
Pass-through MBS issued by GSEs	354,613	—	354,613	—
Agency CMOs	111,992	—	111,992	—
Derivative – cash flow hedges	4,669	—	4,669	—
<b>Financial Liabilities</b>				
Derivative – cash flow hedges	2,097	—	2,097	—

## Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis. That is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment), and are subject to fair value adjustments. Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. There were no impaired loans carried at fair value at December 31, 2019 or December 31, 2018.

### Financial Instruments Not Measured at Fair Value

The following tables present the carrying amounts and estimated fair values of financial instruments other than those measured at fair value on either a recurring or non-recurring is as follows for the dates indicated, segmented by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Carrying Amount	Fair Value Measurements at December 31, 2019 Using			Total
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>Financial Assets:</b>					
Cash and due from banks	\$ 155,488	\$ 155,488	\$ —	\$ —	\$ 155,488
Loans, net	5,312,097	—	—	5,301,708	5,301,708
Accrued interest receivable	18,891	—	1,674	17,217	18,891
<b>Financial Liabilities:</b>					
Savings, money market and checking accounts	2,709,756	2,709,756	—	—	2,709,756
CDs	1,572,869	—	1,576,706	—	1,576,706
Escrow and other deposits	76,481	76,481	—	—	76,481
FHLBNY Advances	1,092,250	—	1,093,964	—	1,093,964
Subordinated debt, net	113,906	—	114,769	—	114,769
Other borrowings	110,000	110,000	—	—	110,000
Accrued interest payable	4,570	—	4,570	—	4,570

	Carrying Amount	Fair Value Measurements at December 31, 2018 Using			Total
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>Financial Assets:</b>					
Cash and due from banks	\$ 147,256	\$ 147,256	\$ —	\$ —	\$ 147,256
Loans, net	5,372,036	—	—	5,301,281	5,301,281
Accrued interest receivable	17,875	—	1,296	16,579	17,875
<b>Financial Liabilities:</b>					
Savings, money market and checking accounts	2,946,717	2,946,717	—	—	2,946,717
CDs	1,410,037	—	1,407,747	—	1,407,747
Escrow and other deposits	85,234	85,234	—	—	85,234
FHLBNY Advances	1,125,350	—	1,119,548	—	1,119,548
Subordinated debt, net	113,759	—	110,346	—	110,346
Accrued interest payable	2,710	—	2,710	—	2,710

The methods and assumptions used to estimate fair values are described as follows:

#### Cash and Due From Banks

The fair value is assumed to be equal to their carrying value as these amounts are due upon demand (deemed a Level 1 valuation).

#### Loans, Net

In accordance with ASU 2016-01, the fair value of loans held for investment, excluding previously presented impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. Loans are considered a Level 3 classification.

### Accrued Interest Receivable

The estimated fair value of accrued interest receivable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial asset.

### Deposits

The fair value of savings, money market, and checking accounts is, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amount), which has been deemed a Level 1 valuation. The fair value of CDs is based upon the present value of contractual cash flows using current interest rates for instruments of the same remaining maturity (deemed a Level 2 valuation).

### Escrow and Other Deposits

The fair value of escrow and other deposits is, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amount), which has been deemed a Level 1 valuation.

### FHLBNY Advances

The fair value of FHLBNY Advances is measured by the discounted anticipated cash flows through contractual maturity or next interest repricing date, or an earlier call date if, as of the valuation date, the borrowing is expected to be called (deemed a Level 2 valuation). The carrying amount of accrued interest payable on FHLBNY Advances is its fair value and is deemed a Level 2 valuation.

### Subordinated Debt

The fair value of subordinated debt is estimated using discounted cash flow analyses based on then current borrowing rates for similar types of borrowing arrangements (deemed a Level 2 valuation), and is provided to the Company quarterly independently by a market maker in the underlying security. The fair value is shown net of capitalized issuance costs.

### Other Borrowings

Other borrowings consists of overnight or short-term borrowings carried at amortized cost; equal to the amount payable on demand at the reporting date (deemed a level 1 valuation).

### Accrued Interest Payable

The estimated fair value of accrued interest payable approximates its carrying amount, and is deemed to be valued at an input level comparable to its underlying financial liability.

## **25. REGULATORY MATTERS**

The Bank is subject to regulation, examination, and supervision by the New York State Department of Financial Services and the FDIC. The Holding Company is subject to regulation, examination, and supervision by the Board of Governors of the Federal Reserve System.

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (the "Basel III Capital Rules") became effective for the Holding Company and Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. 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. 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 it reached 2.5% on January 1, 2019. The capital conservation buffer was 1.875% and 1.25% at December 31, 2018 and 2017, respectively. Beginning on January 1, 2019, the Holding Company and the Bank effectively have 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. In accordance with the Basel III Capital Rules, the Holding Company and the Bank have elected to exclude all permissible components of accumulated other comprehensive income from computing regulatory capital. Management believes, as of December 31, 2019 and 2018, the Holding Company and Bank met all capital requirements to which they were subject.

The Bank is also governed by numerous federal and state laws and regulations, including the FDIC Improvement Act of 1991, which established five categories of capital adequacy ranging from well capitalized to critically undercapitalized (although these items are not utilized to represent overall financial condition). The FDIC utilizes these categories of capital adequacy to determine various matters, including, but not limited to, prompt corrective action and deposit insurance premium assessment levels. Capital levels and adequacy classifications may also be subject to qualitative judgments by the Bank's regulators regarding, among other factors, the components of capital and risk weighting. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions and asset growth are limited, and capital restoration plans are required. As of December 31, 2019 and 2018, the Bank satisfied all criteria necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. There have been no conditions or events since December 31, 2019 that management believes have changed the "well capitalized" categorization.

Actual and required capital amounts and ratios as of the dates indicated are presented below:

	Actual		For Capital Adequacy Purposes <sup>(1)</sup>		To Be Categorized as "Well Capitalized" <sup>(1)</sup>	
	Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
<b>As of December 31, 2019</b>						
<b>Tier 1 Capital / % of average total assets</b>						
Bank	\$ 629,723	10.15%	\$ 248,093	4.0%	\$ 310,116	5.0%
Consolidated Company	547,060	8.79	248,963	4.0	N/A	N/A
<b>Common equity Tier 1 capital / % of risk weighted assets</b>						
Bank	629,723	12.85	220,243	4.5	318,503	6.5%
Consolidated Company	547,060	11.15	220,767	4.5	N/A	N/A
<b>Tier 1 Capital / % of risk weighted assets</b>						
Bank	629,723	12.85	294,002	6.0	392,003	8.0
Consolidated Company	547,060	11.15	294,356	6.0	N/A	N/A
<b>Total Capital / % of risk weighted assets</b>						
Bank	658,610	13.44	392,003	8.0	490,004	10.0
Consolidated Company	690,947	14.08	392,474	8.0	N/A	N/A

(1) In accordance with the Basel III rules.

	Actual		For Capital Adequacy Purposes <sup>(1)</sup>		To Be Categorized as "Well Capitalized" <sup>(1)</sup>	
	Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
<b>As of December 31, 2018</b>						
<b>Tier 1 Capital / % of average total assets</b>						
Bank	\$ 640,386	10.31%	\$ 248,447	4.0%	\$ 310,559	5.0%
Consolidated Company	552,943	8.92	247,842	4.0	N/A	N/A
<b>Common equity Tier 1 capital / % of risk weighted assets</b>						
Bank	640,386	13.34	216,103	4.5	312,149	6.5
Consolidated Company	552,943	11.50	216,361	4.5	N/A	N/A
<b>Tier 1 Capital / % of risk weighted assets</b>						
Bank	640,386	13.34	288,137	6.0	384,183	8.0
Consolidated Company	552,943	11.50	288,481	6.0	N/A	N/A
<b>Total Capital / % of risk weighted assets</b>						
Bank	662,613	13.80	384,183	8.0	480,229	10.0
Consolidated Company	690,170	14.35	384,642	8.0	N/A	N/A

(1) In accordance with the Basel III rules.

## 26. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables summarize the unaudited condensed consolidated results of operations for each of the quarters during the fiscal years ended December 31, 2019 and 2018:

	<b>For the Three Months Ended</b>			
	<b>March 31, 2019</b>	<b>June 30, 2019</b>	<b>September 30, 2019</b>	<b>December 31, 2019</b>
Net interest income	\$ 35,324	\$ 36,504	\$ 36,196	\$ 39,397
Provision (credit) for loan losses	321	(449)	11,228	6,240
Net interest income after provision for loan losses	35,003	36,953	24,968	33,157
Non-interest income	2,360	2,820	3,361	3,627
Non-interest expense	22,052	22,296	22,774	28,265
Income before income taxes	15,311	17,477	5,555	8,519
Income tax expense	3,810	4,442	850	1,574
Net income	<u>\$ 11,501</u>	<u>\$ 13,035</u>	<u>\$ 4,705</u>	<u>\$ 6,945</u>
<b>EPS <sup>(1)</sup>:</b>				
Basic	<u>\$ 0.32</u>	<u>\$ 0.36</u>	<u>\$ 0.13</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.36</u>	<u>\$ 0.13</u>	<u>\$ 0.19</u>

- (1) The quarterly EPS amounts, when added, may not coincide with the full fiscal year EPS reported on the Consolidated Statements of Income due to differences in the computed weighted average shares outstanding as well as rounding differences.

	<b>For the Three Months Ended</b>			
	<b>March 31, 2018</b>	<b>June 30, 2018</b>	<b>September 30, 2018</b>	<b>December 31, 2018</b>
Net interest income	\$ 38,015	\$ 36,134	\$ 35,028	\$ 37,150
Provision for loan losses	193	1,113	335	603
Net interest income after provision for loan losses	37,822	35,021	34,693	36,547
Non-interest income	3,244	2,237	2,221	1,821
Non-interest expense	21,734	20,827	21,585	22,745
Income before income taxes	19,332	16,431	15,329	15,623
Income tax expense	4,587	4,110	3,547	3,183
Net income	<u>\$ 14,745</u>	<u>\$ 12,321</u>	<u>\$ 11,782</u>	<u>\$ 12,440</u>
<b>EPS <sup>(1)</sup>:</b>				
Basic	<u>\$ 0.39</u>	<u>\$ 0.33</u>	<u>\$ 0.32</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 0.39</u>	<u>\$ 0.33</u>	<u>\$ 0.32</u>	<u>\$ 0.34</u>

- (1) The quarterly EPS amounts, when added, may not coincide with the full fiscal year EPS reported on the Consolidated Statements of Income due to differences in the computed weighted average shares outstanding as well as rounding differences.

## 27. CONDENSED HOLDING COMPANY ONLY FINANCIAL STATEMENTS

The following statements of condition as of December 31, 2019 and 2018, and the related statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017, reflect the Holding Company's investment in its wholly-owned subsidiary, the Bank, using, as deemed appropriate, the equity method of accounting:



**DIME COMMUNITY BANCSHARES, INC.**  
**CONDENSED STATEMENTS OF FINANCIAL CONDITION**

	<b>At December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS:</b>		
Cash and due from banks	\$ 25,580	\$ 20,467
Marketable equity securities at fair value	5,894	5,667
Investment in subsidiaries	679,421	689,523
Other assets	516	542
<b>Total assets</b>	<b>\$ 711,411</b>	<b>\$ 716,199</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Subordinated debt, net	\$ 113,906	\$ 113,759
Other liabilities	747	359
Stockholders' equity	596,758	602,081
<b>Total liabilities and stockholders' equity</b>	<b>\$ 711,411</b>	<b>\$ 716,199</b>

**DIME COMMUNITY BANCSHARES, INC.**  
**CONDENSED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME <sup>(1)</sup>**

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net interest loss	\$ (5,147)	\$ (5,151)	\$ (5,427)
Dividends received from Bank	52,500	8,000	8,000
Non-interest income (loss)	531	(302)	249
Non-interest expense	(1,003)	(814)	(2,002)
Income before income taxes and equity in undistributed earnings of direct subsidiaries	46,881	1,733	820
Income tax credit	1,785	2,021	3,274
Income before equity in undistributed earnings of direct subsidiaries	48,666	3,754	4,094
Equity in undistributed earnings of subsidiaries	(12,480)	47,534	47,788
Net income	<b>\$ 36,186</b>	<b>\$ 51,288</b>	<b>\$ 51,882</b>

(1) Other comprehensive income for the Holding Company approximated other comprehensive income for the consolidated Company during the years ended December 31, 2019, 2018 and 2017.

**DIME COMMUNITY BANCSHARES, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from Operating Activities:</b>			
Net income	\$ 36,186	\$ 51,288	\$ 51,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of direct subsidiaries	12,480	(47,534)	(47,788)
Net (gain) loss on marketable equity and trading securities	(531)	302	(169)
Net accretion	147	147	81
Decrease in other assets	26	2,621	2,714
(Decrease) Increase in other liabilities	388	359	(994)
<b>Net cash provided by operating activities</b>	<b>48,696</b>	<b>7,183</b>	<b>5,726</b>
<b>Cash flows from Investing Activities:</b>			
Proceeds from sale of investment securities available-for-sale	—	274	377
Proceeds from the sale of marketable equity and trading securities	570	1,059	4,629
Purchases of investment securities available-for-sale and marketable equity securities	(266)	(311)	(145)
Reimbursement from subsidiary, including purchases of investment securities available-for-sale	26	44	175
Net purchases of trading securities	—	—	(222)
Principal collected on investment securities available-for-sale	—	42	49
<b>Net cash provided by investing activities</b>	<b>330</b>	<b>1,108</b>	<b>4,863</b>
<b>Cash flows from Financing Activities:</b>			
Redemption of preferred stock	(1)	—	(1)
Proceeds from exercise of stock options	367	954	792
Repayment of Trust Preferred Securities	—	—	(70,680)
Proceeds from subordinated debt issuance, net	—	—	113,531
Treasury shares repurchased	(24,191)	(25,881)	—
Release of Common Stock for equity awards	131	76	236
BMP shares of Common Stock received to satisfy distribution of retirement benefits	(133)	(883)	(3,905)
Payments related to tax withholdings for equity awards	(4)	—	—
Capital contribution to subsidiary	—	—	(20,000)
Cash dividends paid to stockholders, net	(20,082)	(20,813)	(20,991)
<b>Net cash used in financing activities</b>	<b>(43,913)</b>	<b>(46,547)</b>	<b>(1,018)</b>
<b>Net (decrease) increase in cash and due from banks</b>	<b>5,113</b>	<b>(38,256)</b>	<b>9,571</b>
<b>Cash and due from banks, beginning of period</b>	<b>20,467</b>	<b>58,723</b>	<b>49,152</b>
<b>Cash and due from banks, end of period</b>	<b>\$ 25,580</b>	<b>\$ 20,467</b>	<b>\$ 58,723</b>

**28. SUBSEQUENT EVENTS**

On February 5, 2020, the Company completed an underwritten public offering of 2,999,200 shares, or \$74,980 in aggregate liquidation preference, of its 5.50% Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share (the “Preferred Stock”), with a liquidation preference of \$25.00 per share. The net proceeds received at the time of closing was \$72,588. The Company will pay dividends from the original date of issuance, when, as, and if declared by its board of directors, at a fixed rate of 5.50% per annum, payable quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year, beginning on May 15, 2020. The Preferred Stock is perpetual and has no stated maturity. The Company may redeem the Preferred Stock at its option at a redemption price equal to \$25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after February 15, 2025 or within 90 days following a regulatory capital treatment event, as described in the prospectus supplement and accompanying prospectus relating to the offering.

## CORPORATE HEADQUARTERS

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**Dime Community Bancshares, Inc.**  
300 Cadman Plaza West, 8th Floor  
Brooklyn, NY 11201

## RETAIL BANKING OFFICES

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### Brooklyn:

8520 4th Avenue, Brooklyn, NY 11209  
1545 86th Street, Brooklyn, NY 11228  
5003 13th Avenue, Brooklyn, NY 11219  
188 Montague Street, Brooklyn, NY 11201  
814 Manhattan Avenue, Brooklyn, NY 11222  
1902 Kings Highway, Brooklyn, NY 11229  
2172 Coyle Street, Brooklyn, NY 11229  
1600 Avenue M, Brooklyn, NY 11230  
208 5th Avenue, Brooklyn, NY 11215  
214 Bedford Avenue, Brooklyn, NY 11249  
281 Broadway, Brooklyn, NY 11211  
149 Kent Avenue, Brooklyn, NY 11211

### Bronx:

1931 Turnbull Avenue, Bronx, NY 10473

### Nassau County:

2412 Jerusalem Avenue, Bellmore, NY 11710  
2401 Jericho Turnpike, Garden City Park, NY 11040  
1775 Merrick Avenue, Merrick, NY 11566  
1000 Port Washington Blvd., Port Washington, NY 11050  
175 West Merrick Road, Valley Stream, NY 11580  
622 Old Country Road, Westbury, NY 11590  
432 Central Avenue, Cedarhurst, NY 11516

### Queens:

61-38 Springfield Boulevard, Bayside, NY 11364  
59-23 Main Street, Flushing, NY 11355  
253-15 Union Turnpike, Glen Oaks, NY 11004  
176-47 Union Turnpike, Flushing, NY 11366  
75-23 37th Avenue, Jackson Heights, NY 11372  
45-14 46th Street, Long Island City, NY 11104  
24-44 Francis Lewis Boulevard, Whitestone, NY 11357

### Suffolk County:

One Huntington Quadrangle, Suite 1N06, Melville, NY 11747

## INVESTOR RELATIONS

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Written inquiry regarding Dime Community Bancshares, Inc. should be directed to:

### Avinash Reddy

**Dime Community Bancshares, Inc.**  
300 Cadman Plaza West, 8th Floor  
Brooklyn, NY 11201  
(718) 782-6200

## TRANSFER AGENT AND REGISTRAR

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Inquiries regarding stockholder administration and services should be directed to:

### American Stock Transfer & Trust Company Operations Center

6201 15th Avenue  
Brooklyn, NY 11219  
1-800-937-5449 | [www.amstock.com](http://www.amstock.com)

## DIRECT STOCK PURCHASE PLAN

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The Dime Community Bancshares, Inc. Direct Investment Program offers a convenient way to purchase or sell shares of the Company's common stock. Please visit the following website for information on how to enroll in the plan, <http://amstock.mobular.net/Amstock/DCOM>.

## INDEPENDENT AUDITORS

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### Crowe LLP

354 Eisenhower Parkway, Suite 2050  
Livingston, NJ 07039

## GENERAL COUNSEL

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### Patricia M. Schaubeck

300 Cadman Plaza West, 8th Floor  
Brooklyn, NY 11201

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