DIME COMMUNITY BANCSHARES INC
Form 10-K
March 14, 2018

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, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 0-27782
Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

300 Cadman Plaza West, 8th Floor, Brooklyn, NY	11201
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

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

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

LARGE ACCELERATED FILER	ACCELERATED FILER
NON -ACCELERATED FILER	(Do not check if a smaller reporting company)
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, 2017 was approximately $625.8 million based upon the $19.60 closing price on the NASDAQ National Market for a share of the registrant’s common stock on June 30, 2017.

As of March 14, 2018, there were 37,432,448 shares of the registrant’s common stock, $0.01 par value, outstanding.

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 24, 2018 and any adjournment thereof, are incorporated by reference in Part III.

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

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. (the “Holding Company,” and 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 (f/k/a The Dime Savings Bank of Williamsburgh) (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;
- general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry, may different than the Company currently anticipates;
- legislative, regulatory or policy changes may adversely affect the Company’s business;
- 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 headquartered in the Brooklyn Heights neighborhood of Brooklyn, New York. The Company was organized in 1996 and is registered as a savings and loan holding company with the Board of Governors of the Federal Reserve System pursuant to section 10(l) of the Home Owners’ Loan Act, as amended. As of December 31, 2017, the Holding Company's direct subsidiary was Dime Community Bank (the “Bank”), a banking subsidiary that engages in commercial banking and financial services. In 2004, the Company formed Dime Community Capital Trust I as a subsidiary, which issued $72.2 million of 7.0% trust preferred securities. During the year ended December 31, 2017, the Company fully redeemed the outstanding balance of $70.7 million, and dissolved the trust. The Company also dissolved 842 Manhattan Ave Corp. during the year ended December 31, 2017, as this subsidiary was inactive. The Company's common stock ("Common Stock") is traded on the Nasdaq Global Market under the symbol "DCOM."

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Dime Community Bank, a New York State-chartered stock savings bank formerly known as The Dime Savings Bank of Williamsburgh, was founded in 1864. As of December 31, 2017, the Bank operated twenty-eight full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County and Suffolk County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate, mixed use, and, to an increasing extent, commercial and industrial ("C&I") loans, as well as one-to-four family residential real estate loans, mortgage-backed securities, obligations of the U.S. government and government-sponsored enterprises ("GSEs"), and corporate debt and equity securities. The substantial majority of the Bank's lending occurs in the greater NYC metropolitan area. The Bank has four active subsidiaries, including two real estate investment trusts that hold one-to-four family and multifamily residential and commercial real estate loans; Dime Insurance Agency, which engages in general insurance agency activities; and Boulevard Funding Corporation, which holds and manages real estate.

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

Market Area and Competition

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

The Bank maintains its headquarters in the borough of Brooklyn, New York, and as of December 31, 2017 operated twenty-eight full-service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County and Suffolk County, New York. The Bank gathers deposits primarily from the communities and neighborhoods in close proximity to its branches, and via the internet. The Bank's primary lending area is in the greater NYC metropolitan area, although its overall lending area is larger, extending approximately 50 miles in each direction from its corporate headquarters in Brooklyn. The majority of the Bank's loans are secured by properties located in its primary lending area, with approximately 86% secured by real estate located in the NYC boroughs of Brooklyn, Queens and Manhattan on December 31, 2017.

The NYC banking environment is extremely competitive. The Bank's competition for loans exists principally from other savings banks, commercial banks, mortgage banks, and insurance companies and GSEs. The Bank continues to face sustained competition for the origination of multifamily residential and commercial real estate loans, which together comprised 98% of the Bank's loan portfolio at December 31, 2017. Competition for C&I loans also exists, to an increasing extent, as the Bank develops this portfolio.

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

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

Lending Activities

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

The Board of Directors of the Bank establishes lending authority levels for the various loan products offered by the Bank. The Bank maintains a Loan Operating Committee which, as of December 31, 2017, consisted of the President and Chief Executive Officer, Senior Executive Vice President and Chief Operating Officer, Senior Executive Vice President – Business Banking, Executive Vice President and Chief Risk Officer, Executive Vice President – Business Banking, Senior Vice President – Commercial Lending, and Senior Vice President and Chief Credit Officer. The Loan Operating Committee has the authority to approve any portfolio loan origination. All loans approved by the Loan Operating Committee are presented to the Bank's Board of Directors for its review.

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

Multifamily Residential Lending and Commercial Real Estate Lending

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

At December 31, 2017, multifamily residential 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. At December 31, 2017, mixed-use properties classified as multifamily residential or commercial real estate loans totaled $2.02 billion.

Multifamily residential and commercial real estate loans in the Bank's portfolio generally range in amount from $250,000 to $5.0 million. Multifamily residential loans in this range are generally secured by buildings that contain between 5 and 100 apartments.

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

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

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).

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 120% for multifamily residential and 125% for commercial real estate loans. The weighted average loan-to-value and debt service ratios approximated 59% and 170%, respectively, on all multifamily residential real estate loans originated during the year ended December 31, 2017, and 59% and 224%, respectively, on commercial real estate loans originated during the year ended December 31, 2017. 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.

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

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

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Commercial and Industrial ("C&I") Loans

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

The Bank may originate adjustable- and fixed-rate C&I loans. During the year ended December 31, 2017, approximately 69% of C&I originations were adjustable-rate, and approximately 31% were fixed-rate. C&I loans in the Bank's portfolio vary in size depending on the type of product. As of December 31, 2017, the largest C&I loan was $18.1 million.

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

As part of its strategic plan for 2018, the Bank is taking steps to develop its residential loan portfolio as part of its relationship-based lending buildout in order to offer more lending products to its borrowers.

Home Equity and Home Improvement Loans

The Bank ceased origination of home equity and home improvement loans during the year ended December 31, 2013. Home equity loans and home improvement loans, the great majority of which are included in one-to-four family loans, were previously 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. Interest on home equity and home improvement loans was initially the "prime lending" rate at the time of origination. After six months, the interest rate adjusts and ranges from the prime interest rate to 100 basis points above the prime interest rate in effect at the time. The interest rate on the loan can never fall below the rate at origination.

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

Equity credit lines 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

During the year ended December 31, 2017, the Bank originated $9.1 million of ADC loans. At December 31, 2017, the Bank had no unfunded construction loan commitments. 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.

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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., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 3 to the Company’s Consolidated Financial Statements for a discussion of 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. 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 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 enhLY: times new roman;">

Accrued payroll and taxes	996,786	1,440,040
Accrued expenses and other	1,747,314	1,828,916
Total current liabilities	4,381,228	5,499,249
Long-term debt	6,828,000	3,800,000
Other liabilities	2,474,936	2,050,272
Deferred gain	1,196,820	1,352,927
Total liabilities	14,880,984	12,702,448
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none issued	--	--

Common stock, $0.01 par value, 20,000,000 shares authorized, 4,732,705 shares issued	47,327	47,327
Additional paid-in capital	19,297,282	19,041,867
Retained earnings	12,908,210	12,759,122
Treasury stock of 1,496,689 and 1,272,383 common shares, at 9/30/07 and 12/31/06, respectively	(13,262,423)	(11,275,072)
Total stockholders' equity	18,990,396	20,573,244
Total Liabilities and Stockholders' Equity	$ 33,871,380	$ 33,275,692

See accompanying notes to consolidated financial statements.

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Mexican Restaurants, Inc. and Subsidiaries

Consolidated Statements of Income
(Unaudited)

	13-Week Period Ended 9/30/2007	13-Week Period Ended 10/1/2006	39-Week Period Ended 9/30/2007	39-Week Period Ended 10/1/2006
Revenues:				
Restaurant sales	$ 20,713,643	$ 20,045,681	$ 61,741,934	$ 61,188,112
Franchise fees, royalties and other	173,637	195,503	505,598	629,116
Business interruption	-	-	-	59,621
	20,887,280	20,241,184	62,247,532	61,876,849
Costs and expenses:				
Cost of sales	5,929,587	5,521,942	17,572,761	16,827,805
Labor	6,726,294	6,588,986	20,206,367	19,762,053
Restaurant operating expenses	5,095,089	4,866,542	15,273,881	14,144,913
General and administrative	1,855,287	1,703,966	5,690,916	5,403,634
Depreciation and amortization	866,678	796,976	2,544,913	2,276,928
Pre-opening costs	2,777	-	22,771	64,248
Impairment costs	90,858	17,458	90,858	95,589
Hurricane Rita gain	-	-	-	(366,808)
(Gain) loss on sale of assets	107,819	7,156	199,501	(3,797)
	20,674,389	19,503,026	61,601,968	58,204,565
Operating income	212,891	738,158	645,564	3,672,284
Other income (expense):				
Interest income	4,835	4,349	8,658	5,609
Interest expense	(139,056)	(109,230)	(362,639)	(308,222)
Other, net	8,407	21,244	33,910	68,686
	(125,814)	(83,637)	(320,071)	(233,927)
Income from continuing operations before income taxes	87,077	654,521	325,493	3,438,357
Income tax expense (benefit)	(11,611)	200,492	63,783	1,143,893
Income from continuing operations	98,688	454,029	261,710	2,294,464
Discontinued operations:				
Income (loss) from discontinued operations	-	(125,018)	3,090	(230,913)
Restaurant closure costs	(15,767)	-	(185,316)	-
Gain (loss) on sale of assets	-	(573)	3,412	(3,310)
Loss from discontinued operations before income taxes	(15,767)	(125,591)	(178,814)	(234,223)
Income tax benefit	5,829	46,951	66,192	87,562
Loss from discontinued operations	(9,938)	(78,640)	(112,622)	(146,661)
Net income	$ 88,750	$ 375,389	$ 149,088	$ 2,147,803

Basic income (loss) per share								
Income from continuing operations	$	0.03	$	0.13	$	0.07	$	0.67
Loss from discontinued operations		-		(0.02)		(0.03)		(0.04)
Net income	$	0.03	$	0.11	$	0.04	$	0.63
Diluted income (loss) per share								
Income from continuing operations	$	0.03	$	0.12	$	0.07	$	0.63
Loss from discontinued operations		-		(0.02)		(0.03)		(0.04)
Net income	$	0.03	$	0.10	$	0.04	$	0.59
Weighted average number of shares outstanding (basic)		3,418,669		3,400,944		3,371,883		3,386,965
Weighted average number of shares outstanding (diluted)		3,463,126		3,633,868		3,438,601		3,647,249

See accompanying notes to consolidated financial statements.

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Mexican Restaurants, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	39 Weeks Ended 9/30/2007	39 Weeks Ended 10/1/2006
Cash flows from operating activities:		
Net income	$ 149,088	$ 2,147,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,544,913	2,276,928
Deferred gain amortization	(156,107)	(156,107)
Loss from discontinued operations	112,622	146,661
Impairment costs	90,858	95,589
Hurricane Rita gain	-	(366,808)
Loss (gain) on sale of assets	199,501	(3,797)
Stock based compensation expense	98,269	44,820
Deferred income taxes (benefit)	(136,793)	374,217
Changes in assets and liabilities:		
Royalties receivable	23,832	52,954
Other receivables	33,206	(446,183)
Inventory	(10,348)	35,112
Income taxes receivable/payable	(57,196)	(81,214)
Prepaid and other current assets	(214,942)	(98,473)
Other assets	(97,737)	13,329
Accounts payable	(617,444)	(183,318)
Accrued expenses and other liabilities	(539,721)	(291,007)
Deferred rent and other long-term liabilities	466,032	246,787
Total adjustments	1,738,945	2,551,856
Net cash provided by continuing operations	1,888,033	4,699,659
Net cash used in discontinued operations	(23,336)	(248,496)
Net cash provided by operating activities	1,864,697	4,451,163
Cash flows from investing activities:		
Insurance proceeds received from Hurricane Rita loss	-	785,028
Purchase of property, plant and equipment	(3,483,799)	(3,731,652)
Proceeds from sale of property, plant and equipment	5,280	765,000
Business acquisition, net of cash acquired	-	(742,490)
Net cash used in continuing operations	(3,478,519)	(2,924,114)
Net cash provided by (used in) discontinued operations	4,020	(71,824)
Net cash used in investing activities	(3,474,499)	(2,995,938)
Cash flows from financing activities:		
Net borrowings under line of credit agreement	3,528,000	450,000
Purchase of treasury stock	(1,628,000)	(261,730)
Excess tax benefit – stock-based compensation expense	7,100	52,462
Exercise of stock options	8,900	502,425
Payments on long-term debt	(500,000)	(2,500,000)
Net cash provided by (used in) financing activities	1,416,000	(1,756,843)

Net decrease in cash	(193,802)	(301,618)
Cash at beginning of period	653,310	788,109
Cash at end of period	$ 459,508	$ 486,491
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$ 240,107	$ 287,091
Income taxes	$ 93,000	$ 774,819
Non-cash financing activities:		
Sale of assets for common stock (Note 9)	$ 218,205	$ -

See accompanying notes to consolidated financial statements.

MEXICAN RESTAURANTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

In the opinion of Mexican Restaurants, Inc. (the "Company"), the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals and adjustments) necessary for a fair presentation of the consolidated financial position as of September 30, 2007, and the consolidated statements of income and cash flows for the 13-week and 39-week periods ended September 30, 2007 and October 1, 2006. The consolidated statements of income for the 13-week and 39-week periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. During the interim periods, the Company follows the accounting policies described in the notes to its consolidated financial statements in its Annual Report and Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on April 2, 2007. Reference should be made to such consolidated financial statements for information on such accounting policies and further financial detail.

The consolidated statements of income and cash flows for the 13-week and 39-week periods ended October 1, 2006 have been adjusted to remove the operations of closed restaurants, which have been reclassified as discontinued operations. Consequently, the consolidated statements of income and cash flows for the 13-week and 39-week periods ended October 1, 2006 shown in the accompanying consolidated financial statements have been reclassified to conform to the September 30, 2007 presentation. These reclassifications have no effect on total assets, total liabilities, stockholders' equity or net income.

Impact of Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 defines fair value, furnished a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company has not yet determined the estimated impact on its financial condition or results of operations, if any, of adopting SFAS No. 157, which becomes effective for the fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Company has not yet determined the estimated impact on its financial condition or results of operations, if any, of adopting SFAS No. 159, which becomes effective for the fiscal years beginning after November 15, 2007.

Effective January 1, 2007, the Company adopted FASB Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which is intended to clarify the accounting for income taxes prescribing a minimum recognition threshold for a tax position before being recognized in the consolidated financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the requirements of FIN 48, the Company evaluated all tax years still subject to potential audit under state and federal income tax law in reaching its accounting conclusions. As a result, the Company concluded it did not have any unrecognized tax benefits or any additional tax liabilities after applying FIN 48 as of the January 1, 2007 adoption date or during the 13 week and 39 week periods ended September 30, 2007. The adoption of FIN 48 therefore had no impact on the Company's consolidated financial statements. See Note 2 for further discussion.

2. Income Taxes

The provisions of FIN No. 48 have been applied to all of our material tax positions taken through the date of adoption and during the 13 week and 39 week periods ended September 30, 2007. We have determined that all of our material tax positions taken in our income tax returns met the more likely-than-not recognition threshold prescribed by FIN No. 48. In addition, we have also determined that, based on our judgment, none of these tax positions meet the definition of "uncertain tax positions" that are subject to the non-recognition criteria set forth in the new pronouncement. In future reporting periods, if any interest or penalties are imposed in connection with an income tax liability, we expect to include both of these items in our income tax provision. We also do not believe that it is reasonably possible that the amount of our unrecognized tax benefits will change significantly within the next twelve months. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2003. During fiscal year 2006, the Internal Revenue Service (IRS) examined the Company's 2004 U.S. income tax return, resulting in the IRS sending a final determination notice of "No Change", dated June 29, 2006. As a result, the Company concluded it did not have any unrecognized tax benefits or any additional tax liabilities after applying FIN 48 as of the January 1, 2007 adoption date or as of the 13 week and 39 week periods ended September 30, 2007. The adoption of FIN 48 therefore had no impact on the Company's consolidated financial statements.

In May 2006, the State of Texas enacted a new business tax that is imposed on gross revenues to replace the State's current franchise tax regime. The new legislation's effective date is January 1, 2008, which means that our first Texas margins tax ("TMT") return will not become due until May 15, 2008 and will be based on our 2007 operations. Although the TMT is imposed on an entity's gross revenues rather than on its net income, certain aspects of the tax make it similar to an income tax. In accordance with the guidance provided in SFAS No. 109, we have properly determined the impact of the newly-enacted legislation in the determination of our reported state current and deferred income tax liability.

3. Stock-Based Compensation

At September 30, 2007, the Company had several equity-based compensation plans from which stock-based compensation awards can be granted to eligible employees, officers or directors. The current plans are the 2005 Long Term Incentive Plan, the 1996 Long Term Incentive Plan, the Stock Option Plan for Non-Employee Directors and the 1996 Manager's Stock Option Plan. These plans are described in more detail in Note 5 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Effective January 2, 2006, the Company adopted SFAS No. 123 (Revised) Share-Based Payments (SFAS No.123(R)) utilizing the modified prospective approach. Prior to the adoption of SFAS No. 123(R),the Company accounted for the equity-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (the intrinsic value method), and accordingly, did not recognize any compensation expense for stock option grants.

Under the modified prospective approach, SFAS No. 123(R) applies to new awards and to unvested awards that were outstanding on January 2, 2006, and those that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, compensation cost recognized in the consolidated financial statements includes compensation cost for all unvested stock-based payments granted prior to adoption and compensation cost for all stock-based compensation awards granted subsequent to adoption, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

On May 23, 2006, the Company's Board of Directors approved a restricted stock grant of 3,000 shares to each of the outside directors with ten years of service, with such grants vesting over a four year period. Two of the directors qualified for this restricted stock grant. Effective December 15, 2006, the Company awarded restricted stock grants for an aggregate of 25,000 shares to four employees, with such grants vesting over a five year period. During the second quarter of fiscal year 2007, 5,000 restricted shares and 2,500 stock options were forfeited upon the termination of one of those employees.

On May 22, 2007, the Company’s Board of Directors approved a restricted stock grant of 10,000 shares to its President, with such grant vesting over a four year period. Also, restricted stock grants for an aggregate of 11,000 shares was made to four employees of its Michigan operations, with such grants vesting over a five year period. In addition, the Board approved a stock option grant to the Company’s President for 50,000 options with a grant date price of $8.43. The options vest over a five year period, with no vesting in the first year and vesting of 10%, 20%, 30% and 40% in the second, third, fourth and fifth years, respectively.

On August 17, 2007, the Company's Board of Directors approved restricted stock grants for an aggregate of 20,000 shares to two employees, with one 10,000 share grant vesting over five years and the second 10,000 share grant vesting as follows: 2,000 shares vested on 8/30/07 with the remaining 8,000 shares vesting at 2,000 shares per year over four years. The Company's Board also approved an aggregate of 25,000 stock options to two employees with such grants vesting over five years.

The Company receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price for which the options were sold over the exercise prices of the options. There were zero and 44,625 stock options exercised in the 13-week periods ending September 30, 2007 and October 1, 2006, respectively. The Company received cash in the amount of $255,203 in the third quarter of 2006 from the exercise of these options.

As a result of adopting SFAS No. 123(R) on January 2, 2006, income before income taxes, net income and diluted earnings per share for the 13-week period ended October 1, 2006, were lower by $18,688, $11,779 and $0.00 per share, respectively, and for the 39-week period ended October 1, 2006 were lower by $44,820, $28,250 and $0.01 per share, respectively, than if the Company had continued to account for stock-based compensation under APB Opinion No. 25.

4. Income per Share

Basic income per share is based on the weighted average shares outstanding without any dilutive effects considered. Prior to the adoption of SFAS No. 123(R), diluted income per share recognized the dilution from all contingently issuable shares, including options and warrants.

Since the adoption of SFAS No. 123(R) in fiscal year 2006, diluted income per share is calculated using the treasury stock method, which considers unrecognized compensation expense as well as the potential excess tax benefits that reflect the current market price and total compensation expense to be recognized under SFAS No. 123(R). If the sum of the assumed proceeds, including the unrecognized compensation costs calculated under the treasury stock method, exceeds the average stock price, those options would be considered antidilutive and therefore excluded from the calculation of diluted income per share. For the 13-week and 39-week periods ended September 30, 2007, the incremental shares added in the calculation of diluted income per share were 44,457 and 66,718, respectively. For the 13-week and 39-week periods ended October 1, 2006, the incremental shares added in the calculation of diluted income per share were 232,924 and 260,284, respectively, which affected the determination of diluted income by $0.01 and $0.04 per share, respectively.

5. Hurricane Rita

During the second quarter of 2006, the Company reached a resolution with its insurance carrier for the Hurricane Rita insurance claim. As of October 1, 2006 the Company had a receivable due from its insurance carrier of $426,822 and had received proceeds of $785,028. All insurance proceeds related to this claim were collected prior to the end of fiscal year 2006.

6. Long-term Debt

On March 31, 2006, the Company prepaid $2.5 million of the Beaumont-based franchise restaurant seller notes by drawing $2.0 million on its Bank of America revolving line of credit, with the balance paid from cash reserves.

On March 29, 2007, the Company amended its credit facility with Bank of America, changing its credit facility from a $10.0 million credit facility consisting of a $5.0 million term note (remaining balance $1.5 million) and a $5.0 million revolving line of credit to a $7.5 million revolving line of credit, rolling the term note balance into the newly increased revolving line of credit. The revolving line of credit was to mature on December 31, 2011. The amendment allowed for additional capital expenditures, revised certain covenant ratios and increased the amount of allowable stock or vested option repurchases. The interest rate was either the prime rate or LIBOR plus a stipulated percentage. The Company was subject to a non-use fee of 0.75% on the unused portion of the revolver from the date of the credit agreement. The Company pledged the stock of its subsidiaries, its leasehold interests, its patents and trademarks and its furniture, fixtures and equipment as collateral for its credit facility with Bank of America. The amendment was signed March 29, 2007 and was made effective December 31, 2006. The Company was in full compliance with all debt covenants, as amended, as of April 1, 2007.

On June 29, 2007 the Company entered into a Credit Agreement (the “Wells Fargo Agreement”) with Wells Fargo Bank, N.A. (“Wells Fargo”) in order to increase the revolving loan amount available to the Company from $7.5 million to $10 million. The Wells Fargo Agreement also allows up to $2.0 million in annual stock repurchases. In connection with the execution of the Wells Fargo Agreement, the Company prepaid and terminated its existing credit facility between the Company and Bank of America. The Wells Fargo Agreement provides for a revolving loan of up to $10 million, with an option to increase the revolving loan by an additional $5 million, for a total of $15 million. The Wells Fargo Agreement terminates on June 29, 2010. At the Company’s option, the revolving loan bears an interest rate equal to either the Wells Fargo’s Base Rate plus a stipulated percentage or LIBOR plus a stipulated percentage. Accordingly, the Company is impacted by changes in the Base Rate and LIBOR. The Company is subject to a non-use fee of 0.50% on the unused portion of the revolver from the date of the Wells Fargo Agreement. The Company has pledged the stock of its subsidiaries, its leasehold interests, its patents and trademarks and its furniture, fixtures and equipment as collateral for its credit facility with Wells Fargo Bank, N.A. The Wells Fargo Agreement requires the Company to maintain certain minimum EBITDA levels, leverage ratios and fixed charge coverage ratios. As of September 30, 2007, the Company was in compliance with all debt covenants and expects to be in full compliance with all debt covenants during the balance of fiscal year 2007.

7. Restaurant Closure Costs

For the 13-week and 39-week periods ended September 30, 2007, the Company recorded closure costs of $15,767 and $185,316, respectively, all of which is included in discontinued operations. These closure costs related primarily to one under-performing restaurant closed in February, 2007 after its lease expired, and to three other restaurants, closed prior to 2007, two of which the Company subleased and the third in which the Company finalized the common area maintenance and property tax billing recently received from the landlord.

8. Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 144, “*Accounting for the Impairments or Disposal of Long-Lived Assets*”, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the 13-week and 39-week periods ended September 30, 2007, the Company recorded impairment costs of $90,858 related to two under-performing restaurants that are operating in the Houston area. For the 13-week and 39-week periods ended October 1, 2006, the Company recorded impairment costs of $17,458 and $95,589, related to previously closed restaurants in Idaho.

9. Related Party Transactions

On June 12, 2007, the Company’s Director of Franchise Operations, Mr. Forehand, resigned his position and entered into a five year employment agreement, which provides for a reduced operational role with the Company. He will continue to serve as a Director and as Vice Chairman of the Company’s Board of Directors.

On June 15, 2007, Mr. Forehand entered into an Asset Purchase Agreement to purchase the assets of the Company’s Casa Olé restaurant located in Stafford, Texas, an under-performing restaurant, for an agreed price of 26,806 shares of the Company’s common stock. The stock was valued at $8.14 per share, which was the ten-day weighted average stock price as of June 12, 2007, for a total value of $218,205. The sale resulted in a loss of $79,015. The restaurant operations were taken over by Mr. Forehand after the close of business on July 1, 2007. The Stafford restaurant operates under the Company’s uniform franchise agreement and is subject to a monthly royalty fee. For the 13-week period ended September 30, 2007, the Company recognized royalty income of $5,061.

On June 13, 2007, Mr. Forehand entered into a Stock Purchase Agreement to sell 200,000 shares of his personally-owned common stock back to the Company. The stock was valued at $8.14 per share, which was the ten-day weighted average stock price as of June 12, 2007, and the Company finalized the stock purchase on July 6, 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: growth strategy; dependence on executive officers; geographic concentration; increasing susceptibility to adverse conditions in the region; changes in consumer tastes and eating and discretionary spending habits; the risk of food-borne illness; national, regional or local economic and real estate conditions; demographic trends; inclement weather; traffic patterns; the type, number and location of competing restaurants; inflation; increased food, labor and benefit costs; the availability of experienced management and hourly employees; seasonality and the timing of new restaurant openings; changes in governmental regulations; dram shop exposure; and other factors not yet experienced by the Company. The use of words such as "believes", "anticipates", "expects", "intends" and simila expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's most recently filed Annual Report and Form 10-K that attempt to advise interested parties of the risks and factors that may affect the Company's business. The Company undertakes no obligation to update any such statements or publicly announce any updates or revisions to any of the forward-looking statements contained herein, to reflect any change in its expectations with regard thereto or any change in events, conditions, circumstances or assumptions underlying such statements.

General

The Company operates and franchises Mexican-theme restaurants featuring various elements associated with the casual dining experience under the names Casa Olé, Monterey's Tex-Mex Café, Monterey's Little Mexico, Tortuga Coastal Cantina, Crazy Jose's, La Señorita and Mission Burritos. At September 30, 2007 the Company operated 58 restaurants, franchised 19 restaurants and licensed one restaurant in various communities in Texas, Louisiana, Oklahoma and Michigan.

The Company's primary source of revenues is the sale of food and beverages at Company-owned restaurants. The Company also derives revenues from franchise fees, royalties and other franchise-related activities with respect to its franchised restaurants. Franchise fee revenue from an individual franchise sale is recognized when all services relating to the sale have been performed and the restaurant has commenced operation. Initial franchise fees relating to area franchise sales are recognized ratably in proportion to the services that are required to be performed pursuant to the area franchise or development agreements and proportionately as the restaurants within the area are opened.

The consolidated statements of income and cash flows for the 13-week and 39-week periods ended October 1, 2006 have been adjusted to remove the operations of closed restaurants, which have been reclassified as discontinued operations. Consequently, the consolidated statements of income and cash flows for the 13-week and 39-week periods ended October 1, 2006 shown in the accompanying consolidated financial statements have been reclassified to conform to the September 30, 2007 presentation. These reclassifications have no effect on total assets, total liabilities, stockholders' equity or net income.

Since its inception as a public company in 1996, the Company has primarily grown through the acquisition of other Mexican food restaurant companies.

In 1997, the Company purchased all of the outstanding stock of Monterey's Acquisition Corp. ("MAC"). At the time of the acquisition, MAC owned and operated 26 restaurants in Texas and Oklahoma under the names "Monterey's Tex-Mex Café," "Monterey's Little Mexico" and "Tortuga Coastal Cantina."

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In 1999, the Company purchased 100% of the outstanding stock of La Señorita Restaurants, a Mexican restaurant chain operated in the State of Michigan. At the time of the acquisition, La Señorita operated five company-owned restaurants, and three franchise restaurants.

In January 2004, the Company completed its purchase of 13 restaurants and related assets from its Beaumont-based franchisee and affiliates for a total consideration of approximately $13.75 million. The restaurants acquired include eight Casa Olé restaurants located in Southeast Texas, two Casa Olé restaurants located in Southwest Louisiana, and three Crazy Jose's restaurants located in Southeast Texas.

In October 2004, the Company completed its purchase of one franchise restaurant in Brenham, Texas for approximately $215,000. The restaurant was closed, remodeled and re-opened on November 22, 2004.

In August 2006, the Company purchased two Mission Burritos restaurants and related assets located in Houston, Texas for approximately $725,000.

Results of Operations

Revenues. The Company's revenues for the third quarter of fiscal year 2007 increased $646,096 or 3.2% to $20.9 million compared with $20.2 million for the same quarter in fiscal year 2006. Restaurant sales for third quarter 2007 increased $667,962 or 3.3% to $20.7 million compared with $20.0 million for the third quarter of fiscal year 2006. Approximately half of the increase reflects positive same-store sales. The other half of the increase in revenue reflects one new restaurant addition and revenues from the Company's Mission Burritos stores acquired in August 2006. For the third quarter ended September 30, 2007, Company-owned same-restaurant sales increased approximately 1.8% and franchised-owned same-restaurant sales, as reported by franchisees, increased approximately 5.4%.

On a year-to-date basis, the Company's revenue increased $370,683 or 0.6% to $62.2 million compared with $61.9 million for the same 39-week period in fiscal 2006. Restaurant sales for the 39-week period ended September 30, 2007 increased $553,822 or 0.9% to $61.7 million compared with $61.2 million for the same 39-week period of fiscal 2006. The increase in revenue reflects new restaurant additions and revenues from the Company's Mission Burritos stores, partially offset by an approximate $1.5 million decline in same-store sales and the loss of sales of one closed restaurant for remodeling. For the 39-week period ended September 30, 2007, Company-owned same-restaurant sales decreased approximately 2.6% and franchised-owned same-restaurant sales, as reported by franchisees, increased approximately 1.9%.

For the quarter ended September 30, 2007, franchise fees, royalties and other decreased $21,866 or 11.2% to $173,637 compared with $195,503 for the same quarter a year ago. The decrease primarily reflects the closure of one franchise location.

On a year-to-date basis, franchise fees, royalties and other decreased $183,139 or 26.6% to $505,598 compared with $688,737 for the same quarter a year ago. The decrease primarily reflects business interruption proceeds of $59,621 received during the second quarter ended July 2, 2006 and $80,000 recognition in royalties due to the correction of understated royalty income which was also recorded in the second quarter ended July 2, 2006.

Costs and Expenses. Costs of sales, consisting of food, beverage, liquor, supplies and paper costs, increased as a percent of restaurant sales 110 basis points to 28.6% compared with 27.5% in the third quarter of fiscal year 2006. The increase primarily reflects higher commodity prices, especially produce, cheese and dry goods. In April and May of 2007, the Company raised menu prices at most of our concepts in an effort to offset some of the rise in commodity costs.

On a year-to-date basis, costs of sales increased as a percent of restaurant sales 100 basis points to 28.5% compared with 27.5% for the same 39-week period a year ago. The increase was due to the same reasons discussed above.

Labor and other related expenses decreased as a percentage of restaurant sales 40 basis points to 32.5% as compared with 32.9% in the third quarter of fiscal year 2006. The decrease primarily reflects improved hourly labor utilization. On a year-to-date basis, labor and other related expense increased as a percentage of restaurant sales 40 basis points to 32.7% compared with 32.3% for the 39-week period a year ago. The increase primarily reflects the lingering impact of the first quarter of fiscal 2007, which had labor cost of 33.8%, reflecting hourly labor that was not scheduled in proportion to declining same-restaurant sales during that period. Since the first quarter, labor cost improved to 32.0% in the second quarter and 32.5% in the third. Labor utilization improvements were approximately the same for both the second and third quarters. the second quarter benefited from a one-time adjustment to worker's compensation insurance and unemployment tax adjustments related to a policy audit and a refund due to excess funding from the State of Texas Workforce Commission.

Restaurant operating expenses, which primarily include rent, property taxes, utilities, repair and maintenance, liquor taxes, property insurance, general liability insurance and advertising, increased as a percentage of restaurant sales 30 basis points to 24.6% as compared with 24.3% in the third quarter of fiscal year 2006. The increase primarily reflects higher repair and maintenance expenses and advertising expense. On a year-to-date basis, restaurant operating expenses increased 160 basis points to 24.7% compared with 23.1% for the 39-week period in fiscal year 2006. The increase reflects higher property insurance premiums (resulting from perceived greater hurricane threats in the Gulf Coast Region), repair and maintenance, a one-time rent related common area maintenance adjustment and security costs.

General and administrative expenses consist of expenses associated with corporate and administrative functions that support restaurant operations. As a percentage of total revenue, general and administrative expenses increased 50 basis points to 8.9% for the third quarter of fiscal year 2007 as compared with 8.4% for the third quarter of fiscal year 2006. In absolute dollars, general and administrative costs were $151,321 higher in the third quarter of fiscal year 2007 compared with the third quarter of fiscal year 2006. The increase primarily reflects an increase in stock option expense, employee finder fees, legal expenses and consulting fees related to Sarbanes-Oxley required internal control documentation and testing. On a year-to-date basis, general and administrative expenses increased 40 basis points to 9.1% compared with 8.7% for the 39-week period a year ago. In absolute dollars, general and administrative costs were $287,282 higher in the 39-week period of fiscal 2007 compared with the 39-week period a year ago. The increase was due to the same reasons discussed above, and also due to a $31,250 executive search fee recorded in the first quarter of fiscal 2007.

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. Depreciation and amortization expense increased as a percentage of total sales 20 basis points to 4.1% for the third quarter of fiscal year 2007 as compared with 3.9% the same quarter in fiscal year 2006. Such expense for the third quarter of fiscal year 2007 was $69,702 higher than for the third quarter in fiscal year 2006. The increase reflects additional depreciation expense for remodeled restaurants, new restaurants, and the replacement of equipment and leasehold improvements in various existing restaurants. On a year-to-date basis, depreciation and amortization expenses increased as a percentage of total sales 40 basis points to 4.1% for the 39-week period of fiscal year 2007 as compared with 3.7% the same 39-week period in fiscal year 2006. The increase was due to the reasons discussed above and the write-off of Bank of America loan costs.

The Company did not open any new restaurants during the third quarter of 2007. The Company, however, reopened a completely remodeled restaurant (closed for eight weeks during the second quarter of 2007) and incurred $19,994 of pre-opening costs in the second quarter and $2,777 in the third quarter for a total of $22,771 for the 39-week period of 2007. Last year, the Company opened one new restaurant at the end of the first quarter of 2006 and incurred $49,738 in pre-opening costs in the first quarter of 2006 and $14,510 in the second quarter of 2006, for a total of $64,248 for the 39-week period of 2006.

Impairment Costs. In accordance with Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairments or Disposal of Long-Lived Assets*", long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the 13-week and 39-week periods ended September 30, 2007, the Company recorded impairment costs of $90,858 related to two under-performing restaurants that are operating in the Houston area. For the 13-week and 39-week periods ended October 1, 2006, the Company recorded impairment costs of $17,458 and $95,589, related to previously closed restaurants in Idaho.

Gain/Loss on Sale of Assets. During the third quarter of fiscal year 2007, the Company recorded losses of $107,819, primarily related to the loss on disposal of assets of two remodeled restaurants. Year-to-date, the Company recorded losses of $199,501, reflecting the loss from the two remodeled restaurants mentioned above and from the sale of one under-performing restaurant to Mr. Forehand, Vice Chairman of the Company, who purchased the assets of the Company's Casa Olé restaurant located in Stafford, Texas for an agreed price of 26,806 shares of the Company's common stock. The stock was valued at $8.14 per share, which was the ten-day weighted average stock price as of June 12, 2007, for a total value of $218,205. The Stafford restaurant will operate under the Company's uniform franchise agreement and is subject to a monthly royalty fee.

Other Income (Expense). Net expense increased $42,177 to $125,814 in the third quarter of fiscal year 2007 compared with a net expense of $83,637 in the third quarter of fiscal year 2006. Interest expense increased $29,826 to $139,056 in the third quarter of fiscal year 2007 compared with interest expense of $109,230 in the third quarter of fiscal year 2006. On a year-to-date basis, net expense for the 39-week period of fiscal year 2007 increased $86,144 to $320,071 as compared to $233,927 for the 39-week period for fiscal year 2006. Interest expense increased $54,417 to $362,639 for the 39-week period of fiscal year 2007 compared to interest expense of $308,222 in the 39-week period of fiscal year 2006. As of September 30, 2007, the Company's outstanding debt was $6.8 million. The Company did not incur any additional debt during the third quarter of fiscal year 2007. During the 39-week period ended September 30, 2007, the Company's outstanding debt increased $3.0 million resulting from drawing $3.5 million on its line of credit and partially offset by the $0.5 million prepayment of the Beaumont-based franchise restaurant seller notes. The increase in interest expense reflects the higher average debt outstanding.

Income Tax Expense. The Company's effective tax rate from continuing operations for the third quarter of fiscal year 2007 was a benefit of 13.3% as compared to an expense of 30.6% for the third quarter of fiscal year 2006. On a year-to-date basis, the Company's effective tax rate from continuing operations for the 39-week period of fiscal year 2007 was 19.6% as compared to 33.3% for the 39-week period for fiscal year 2006. For the third quarter of fiscal year 2007, the Company had tax credits that were larger than the tax expense resulting in a net tax benefit. This created a deferred tax asset which will be available to offset future income taxes. In determining the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate based on forecasted annual income and permanent items, statutory tax rates and tax planning opportunities in the various jurisdictions in which the Company operates. The impact of significant discrete items is separately recognized in the quarter in which they occur.

Restaurant Closure Costs and Discontinued Operations. For the 13-week and 39-week periods ended September 30, 2007, the Company recorded closure costs of $15,767 and $185,316, respectively, all of which is included in discontinued operations. These closure costs related primarily to one under-performing restaurant closed in February, 2007 after its lease expired, and to three other restaurants, closed prior to 2007, two of which the Company subleased and the third in which the Company finalized the common area maintenance and property tax billing recently received from the landlord.

Liquidity and Capital Resources

The Company met capital requirements for the 39-week period of fiscal year 2007 primarily by drawing on its cash reserves and line of credit. In the 39-week period for fiscal year 2007, the Company had cash flow from operating activities of $1.9 million, compared with cash flow from operating activities of $4.5 million in the 39-week period of fiscal year 2006. The decrease in cash flow from operating activities primarily reflects the decrease in operating income. Financing activities provided $1.4 million in the 39-weeks of fiscal year 2007, in which $3.5 million was drawn from the Company's line of credit with $1.6 million used for the purchase of 200,000 shares of the Company's common stock and $0.5 million for the prepayment of the Beaumont-based franchise restaurant seller note, compared to a use of cash of $1.8 million primarily related to long term debt payments in fiscal year 2006. As of September 30, 2007, the Company had a working capital deficit of approximately $828,000 compared with a working capital deficit of approximately $1.9 million at December 31, 2006 and approximately $2.4 million at October 1, 2006. A working capital deficit is common in the restaurant industry, since restaurant companies do not typically require a significant investment in either accounts receivable or inventory.

The Company's principal capital requirements are the funding of routine capital expenditures, new restaurant development or acquisitions and remodeling of older units. During the 39-week period ended September 30, 2007, total cash used for capital requirements was approximately $3.5 million, which included approximately $453,000 spent for new PosiTouch point-of-sale register systems for 15 restaurants (all Company-owned restaurants now have PosiTouch) and $1.3 million for restaurant remodels. The Company did not open any new restaurants during the 39-week period of 2007, but did sign two new leases for Mission Burritos restaurants it plans to open during the first quarter of 2008. One lease previously signed for a future Casa Olé restaurant was terminated due to the landlord's failure to perform. During the 39-week period ended September 30, 2007, the Company completed the remodel of one Casa Olé restaurant at a total cost of approximately $822,000. Sales for the remodeled Casa Olé restaurant were up over 50% since its reopening. The Company's management anticipates that it will spend approximately $1.0 million for capital expenditures during the remainder of fiscal year 2007.

The Company has incurred debt to carry out acquisitions, to repurchase its common stock, to develop new restaurants and to remodel existing restaurants, as well as to accommodate other working capital needs. During the 39-week period ended September 30, 2007, the Company drew $3.5 million on its line of credit, prepaid the remaining seller note of $500,000 from the Beaumont-based franchise restaurant acquisition in 2004, and repurchased 200,000 shares of the Company's common stock for $1.6 million. As of September 30, 2007, the Company had $6.8 million drawn on its line of credit.

On March 29, 2007, the Company amended its credit facility with Bank of America, changing its credit facility from a $10.0 million credit facility consisting of a $5.0 million term note (remaining balance $1.5 million) and a $5.0 million revolving line of credit to a $7.5 million revolving line of credit, rolling the term note balance into the newly increased revolving line of credit. The revolving line of credit was to mature on December 31, 2011. The amendment allowed for additional capital expenditures, revised certain covenant ratios and increased the amount of allowable stock or vested option repurchases. The interest rate was either the prime rate or LIBOR plus a stipulated percentage. Accordingly, the Company is impacted by changes in the prime rate and LIBOR. The Company was subject to a non-use fee of 0.75% on the unused portion of the revolver from the date of the credit agreement. The Company pledged the stock of its subsidiaries, its leasehold interests, its patents and trademarks and its furniture, fixtures and equipment as collateral for its credit facility with Bank of America. The amendment was signed March 29, 2007 and was effective December 31, 2006.

On June 29, 2007 the Company entered into a Credit Agreement (the "Wells Fargo Agreement") with Wells Fargo Bank, N.A. ("Wells Fargo") in order to increase the revolving loan amount available to the Company from $7.5 million to $10 million. The Wells Fargo Agreement also allows up to $2.0 million in annual stock repurchases. In connection with the execution of the Wells Fargo Agreement, the Company prepaid and terminated its existing credit facility between the Company and Bank of America. The Wells Fargo Agreement provides for a revolving loan of up to $10 million, with an option to increase the revolving loan by an additional $5 million, for a total of $15 million. The Wells Fargo Agreement terminates on June 29, 2010. At the Company's option, the revolving loan bears an interest rate equal to either the Wells Fargo's Base Rate plus a stipulated percentage or LIBOR plus a stipulated percentage. Accordingly, the Company is impacted by changes in the Base Rate and LIBOR. The Company is subject to a non-use fee of 0.50% on the unused portion of the revolver from the date of the Wells Fargo Agreement. The Company has pledged the stock of its subsidiaries, its leasehold interests, its patents and trademarks and its furniture, fixtures and equipment as collateral for its credit facility with Wells Fargo Bank, N.A. The Wells Fargo Agreement requires the Company to maintain certain minimum EBITDA levels, leverage ratios and fixed charge coverage ratios. As of September 30, 2007, the Company was in compliance with all debt covenants and expects to be in full compliance with all debt covenants during the balance of fiscal year 2007.

On May 9, 2005, the Company announced its plan to implement a limited stock repurchase program in a manner permitted under its bank financing agreement. The Company entered into a repurchase plan designed to comply with Rules 10b5-1 and 10b-18 under the Securities and Exchange Act of 1934 under which an agent appointed by the Company determined the time, amount, and price at which purchases of common stock were made, subject to certain parameters established in advance by the Company. Under this program, the Company purchased shares through the third quarter of fiscal year 2006. The Company presently has no further authority to repurchase outstanding shares of its common stock under this program. Shares previously acquired are being held for general corporate purposes, including the offset of the dilutive effect on shareholders from the exercise of stock options.

The Company's management believes that with its operating cash flow and the Company's revolving line of credit under the Wells Fargo Agreement, funds will be sufficient to meet operating requirements and to finance routine capital expenditures and new restaurant growth through the next 12 months. Unless the Company violates a debt covenant, the Company's credit facility with Wells Fargo is not subject to triggering events that would cause the credit facility to become due sooner than the maturity dates described in the previous paragraphs.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates on debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding bank debt. At September 30, 2007, there was $6,828,000 outstanding under our revolving credit facility which currently bears interest at 225 basis points (depending on our leverage ratios) over the London Interbank Offered Rate. Should interest rates based on these borrowings increase by one percentage point, our estimated quarterly interest expense would increase by $17,070.

Many of the products and the ingredients used in the products sold in our restaurants are commodities that are subject to unpredictable price volatility. There are no established fixed price markets for certain commodities such as produce and cheese, and we are subject to prevailing market conditions when purchasing those types of commodities. For other commodities, we employ various purchasing and pricing contract techniques in an effort to minimize volatility, including fixed price contracts for terms of one year or less and negotiating prices with vendors with reference to fluctuating market prices. We currently do not use financial instruments to hedge commodity prices, but we will continue to evaluate their effectiveness. Extreme and/or long term increases in commodity prices could adversely affect our future results, especially if we are unable, primarily due to competitive reasons, to increase menu prices. Additionally, if there is a time lag between the increasing commodity prices and our ability to increase menu prices, or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term financial results could be negatively affected.

We are subject to business risk as our beef and chicken supplies are highly dependent upon four vendors. If these vendors were unable to fulfill their obligations under their contracts, we may encounter supply shortages and incur higher costs to secure adequate supplies, any of which would harm our business.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of our management, including the CEO and the CFO, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective as of the period covered by this report.

Changes in Internal Control

During the period covered by this report, there were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from the disclosure included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and (b) are not applicable.

(c) The following table provides information about the Company's purchases of shares of its Common Stock:

Period	Total Number of Shares Purchased (Note 2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Plans or Programs (Note 1)
1/1/07—4/01/07	0	$ 0.00	0	$ 0
4/2/07—7/01/07	200,000	$ 8.14	0	$ 0
4/2/07—7/01/07	26,806	$ 8.14	0	$ 0
7/2/07—9/30/07	0	$ 0.00	0	$ 0

(1) Under a share repurchase program approved by the Board of Directors of the Company on May 2, 2005, and amended September 7, 2005, the Company was authorized to repurchase up to $2,000,000 in maximum aggregate amount of the Company's Common Stock (not to exceed repurchases up to $500,000 in any one quarter). The repurchase program was designed to comply with Rules 10b-18 and Rule 10b5-1 under the Securities Exchange Act of 1934 under which an agent appointed by the Company was to determine the time, amount, and price at which purchases of common stock were to be made, subject to certain parameters established in advance by the Company. As of September 30, 2007, the Company has no remaining repurchase authority remaining under this program.

(2) On June 13, 2007, Mr. Forehand entered into a Stock Purchase Agreement to sell 200,000 shares of his personally-owned common stock back to the Company. The stock was valued at $8.14 per share, which was the ten-day weighted average stock price as of June 12, 2007. Payment of $1,628,000 was made on July 6, 2007.

On June 15, 2007, Mr. Forehand entered into an Asset Purchase Agreement to purchase the assets of the Company's Casa Olé restaurant located in Stafford, Texas for an agreed price of 26,806 shares of the Company's common stock. The stock was valued at $8.14 per share, for a total value of $218,205.

Item 6. Exhibits

Exhibit Number	Document Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Items 1, 3, 4 and 5 of this Part II are not applicable and have been omitted.

SIGNATURES

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

Mexican Restaurants, Inc.

Dated: November 13, 2007 By: /s/ Curt Glowacki
Curt Glowacki
Chief Executive Officer
(Principal Executive Officer)

Dated: November 13, 2007 By: /s/ Andrew J. Dennard
Andrew J. Dennard
Executive Vice President, Chief Financial Officer & Treasurer
(Principal Financial Officer and Principal Accounting Officer)

160;
0.05

367,311

182

0.05

370,439

183

0.05

CDs

989,319

14,101

1.43

1,015,615

14,669

1.44

902,600

12,445

1.38

Borrowed Funds [2]

1,038,497

20,975

2.02

1,043,515

19,767

1.89

1,089,700

23,222

2.13

Total interest-bearing liabilities

5,154,292

$
59,366

1.15
%

4,579,425

$
52,141

1.14
%

3,809,480

$
46,227

1.21
%
Non-interest bearing checking accounts

301,492

263,527

220,134

Other non-interest-bearing liabilities

175,431

170,569

154,809

Total liabilities

5,631,215

5,013,521

4,184,423

Stockholders' equity

580,430

541,247

476,053

Total liabilities and stockholders' equity

$
6,211,645

$
5,554,768

$
4,660,476

Net interest income

$
152,730

$
143,486

$
128,564

Net interest spread [3]

2.38
%

2.52
%

2.72

%
Net interest-earning assets

$
853,270

$
771,585

$
634,015

Net interest margin (4)

2.54
%

2.68
%

2.89
%
Ratio of interest-earning assets to interest-bearing liabilities

116.55
%

116.85
%

116.64
%

(1) In computing the average balance of real estate loans, non-performing loans have been included. Interest income on real estate loans includes loan fees. Interest income on real estate loans also includes applicable prepayment fees and late charges totaling $5.0 million, $9.0 million and $11.3 million during the years ended December 31, 2017, 2016 and 2015, respectively.

(2) Interest expense on borrowed funds includes $1.4 million of prepayment charge recognized during the year ended December 31, 2015. Absent the prepayment charge, the average cost of borrowings would have been 2.01% during the year ended December 31, 2015. There were no such fees during the years ended December 31, 2017 or 2016.

(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.

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Rate/Volume Analysis

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

	Years Ended December 31,					
	2017 over 2016			2016 over 2015		
	Increase/ (Decrease) Due to			Increase/ (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:	(Dollars in Thousands)					
Real Estate Loans	$20,410	$(7,779)	$12,631	$22,030	$(1,521)	$20,509
C&I loans	3,599	(567)	3,032	21	20	41
Other loans	(1)	2	1	(10)	(9)	(19)
Investment securities	(286)	(18)	(304)	(1)	6	5
MBS	448	74	522	(99)	(67)	(166)
Other	218	369	587	468	(2)	466
Total	$24,388	$(7,919)	$16,469	$22,409	$(1,573)	$20,836
Interest-bearing liabilities:						
Interest-bearing checking accounts	$57	$(50)	$7	$37	$(51)	$(14)
Money market accounts	5,119	1,454	6,573	5,458	1,702	7,160
Savings accounts	2	3	5	(2)	1	(1)
CDs	(423)	(145)	(568)	1,620	604	2,224
Borrowed funds	(122)	1,330	1,208	(912)	(2,543)	(3,455)
Total	$4,633	$2,592	$7,225	$6,201	$(287)	$5,914
Net change in net interest income	$19,755	$(10,511)	$9,244	$16,208	$(1,286)	$14,922

Comparison of Operating Results for the Years Ended December 31, 2017, 2016, and 2015

Net income was $51.9 million in 2017, compared to $72.5 million in 2016, and $44.8 million in 2015. During 2017, net interest income increased $9.2 million, the provision for loan losses decreased by $1.6 million, non-interest income decreased by $54.4 million and non-interest expense increased by $1.2 million. Income tax expense decreased $24.1 million in 2017, as a result of $44.7 million of lower pre-tax income which was offset by the re-evaluation of the Company's deferred tax assets and liabilities due to the change in tax rates for 2018 enacted in December 2017. During 2016, net interest income increased $14.9 million, the provision for loan losses increased by $3.4 million, non-interest income increased by $67.3 million and non-interest expense increased by $21.3 million. Income tax expense increased $29.7 million in 2016, as a result of $57.5 million of additional pre-tax income.

Net Interest Income

The discussion of net interest income for 2017, 2016, and 2015 below should be read in conjunction with the tables presented on pages 38 and 39, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated.

The Company's net interest income and net interest margin during 2017, 2016, and 2015 were impacted by the following factors:

- During the period January 1, 2010 through December 31, 2017, FOMC monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 1.50%, resulting in deposit and borrowing costs at historically low levels.

- Increased marketplace competition and refinancing activity on real estate loans, particularly during the period January 1, 2013 through December 31, 2017, resulted in an ongoing reduction in the average yield on real estate loans.

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Interest income was $212.1 million in 2017, $195.6 million in 2016, and $174.8 million in 2015. During 2017, interest income increased $16.5 million from 2016, primarily reflecting increases in interest income of $12.6 million on real estate loans and $3.0 million on C&I loans. The growth in interest income was driven by an increase of $656.6 million in average interest-earning assets, which more than offset the 13 basis point decline in average yield. The increased interest income on real estate loans reflected growth of $567.5 million in their average balance during the comparative period, as new originations exceeded amortization and satisfactions during 2017 due to lower prepayment volume.an increase of $656.6 million in average interest-earning assets, which more than offset the 13 basis point decline in average yield. The increased interest income on real estate loans reflected growth of $567.5 million in their average balance during the comparative period, as new originations exceeded amortization and satisfactions during 2017 due to lower prepayment volume. The increase in interest income on C&I loans reflected an increase of $63.2 million in their average balance as a result of the Company's Business Banking initiative to shift the loan portfolio mix and grow the C&I loan portfolio. During 2016, interest income increased $20.8 million from 2015, primarily reflecting increases in interest income of $20.5 million on real estate loans and $0.5 million on other short term investments. The increased interest income on real estate loans reflected growth of $883.6 million in their average balance during the comparative period, as new originations significantly exceeded amortization and satisfactions during 2016 in connection with the Company's growth strategy. Partially offsetting the higher interest income on real estate loans from the growth in their average balance was a reduction of 28 basis points in their average yield, resulting from both continued low lending rates and heightened marketplace competition. The increase in interest income on other short-term investments reflected an increase of $28.7 million in their average balance as a result of increased cash from $75.9 million net proceeds from the sale of premises during 2016, offset by a 23 basis point decline in their average yield during the comparative period. Net interest margin ("NIM") was 2.54% during 2017, compared to 2.68% in 2016, and 2.89% in 2015. NIM was negatively impacted in both 2017 and 2016 by lower income recognized from loan prepayment activity. For 2017, income from prepayment activity totaled $5.0 million, benefiting NIM by 8 basis points, compared to $9.0 million, or 17 basis points in 2016, and $11.3 million, or 22 basis points in 2015.

Interest expense was $59.4 million in 2017, $52.1 million in 2016, and $46.2 million in 2015. During 2017, interest expense increased $7.2 million from 2016, primarily reflecting increases in expense of $6.6 million on money market accounts and $1.2 million in interest expense on borrowed funds. The increase of $6.6 million in interest expense on money market deposits reflected activities of the DimeDirect internet banking channel that increased their average balance by $585.1 million and their average cost by 6 basis points in 2017. Interest expense on borrowings increased $1.2 million due to an increase of 13 basis points in their average cost, resulting from the re-pricing of lower interest rate borrowings during the period. During 2016, interest expense increased $5.9 million from 2015, primarily reflecting increases in expense of $7.2 million on money market accounts and $2.2 million on CDs, offset by a reduction of $3.5 million in interest expense on borrowed funds. The increase of $7.2 million in interest expense on money market deposits reflected activities in connection with the Company's growth strategy that increased their average balance by $693.3 million and their average cost by 10 basis points in 2016. The increase of $2.2 million in interest expense on CDs reflected an increase in their average balance by $113.0 million and their average cost by 6 basis points, as the Bank competed more aggressively for CDs during 2016 compared to 2015. Interest expense on borrowings declined $3.5 million due to a reduction of 24 basis points in their average cost (resulting from the re-pricing of higher interest rate borrowings), and a decrease in their average balance by $46.2 million during 2016 compared to 2015 as FHLBNY advances continued to mature.

Provision (Credit) for Loan Losses

The Company recognized a provision for loan losses of $0.5 million and $2.1 million in 2017 and 2016 respectively, and a credit (negative provision) for loan losses of $1.3 million in 2015. 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, offset by 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 $2.1 million provision for loan losses recognized during 2016 resulted mainly from growth in the real estate portfolio in connection with the Company’s growth strategy, offset by continued improvement in the overall credit quality of the loan portfolio. The credits recorded during the year ended December 31, 2015 reflected continued improvement in the overall credit quality of the loan portfolio from October 1, 2013 through December 31, 2015, including a $1.5 million recovery of previously charged-off amounts from the favorable resolution of the Bank's largest problem loan.

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

	At or for the Year Ended December 31,				
	2017	2016	2015	2014	2013
Allowance for loan losses:	(Dollars in Thousands)				
Balance at beginning of period	$20,536	$18,514	$18,493	$20,153	$20,550
Provision (credit) for loan losses	520	2,118	(1,330)	(1,872)	369
Charge-offs:					
Multifamily residential	(104)	(92)	(48)	(87)	(504)
Commercial real estate	-	(12)	(44)	(336)	(400)
One-to-four family including condominium and cooperative apartment	(16)	(79)	(115)	(46)	(117)
Construction	-	-	-	-	-
C&I	-	-	-	-	-
Consumer	(4)	(3)	(2)	(9)	(21)
Total charge-offs	(124)	(186)	(209)	(478)	(1,042)
Recoveries	101	90	1,560	690	276
Reserve for loan commitments transferred from other liabilities	-	-	-	-	-
Balance at end of period	$21,033	$20,536	$18,514	$18,493	$20,153

Non-Interest Income

Total non-interest income was $21.5 million in 2017, $75.9 million in 2016, and $8.6 million in 2015. During 2017, non-interest income decreased $54.4 million from 2016, due primarily to a gain of $68.2 million recognized on the sale of real estate during the year ended December 31, 2016. Partially offsetting these increases were a $2.7 million gain on the sale of pooled bank trust preferred securities and a $1.5 million gain on the sale of loans. During 2016, non-interest income increased $67.3 million from 2015 due primarily to a gain of $68.2 million recognized on the sale of real estate during the year ended December 31, 2016. Partially offsetting these increases were a $1.3 million gain on the sale of MBS in 2015, and a decline in service charges and other fees during the comparative period as a result of lower transaction volume.

Non-Interest Expense

Non-interest expense was $85.0 million in 2017, $83.8 million in 2016, and $62.5 million in 2015. 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. During 2016, the Company recognized a non-cash, non-tax deductible, and non-recurring expense of $11.3 million on the prepayment of the Employee Stock Ownership Plan (“ESOP”) share acquisition loan by the plan (“ESOP Charge”). During 2015, the Company recognized a non-recurring $3.4 million reduction in salaries and employee benefits from the curtailment of certain postretirement health benefits (“Curtailment Gain”). Excluding these items, non-interest expense was $82.0 million in 2017, $72.5 million in 2016, and $65.9 million in 2015. The increase of $9.5 million during 2017 compared to 2016 was primarily the result of increases of salaries and benefits expense of $2.5 million, occupancy expense of $2.1 million, data processing expense of $3.1 million, marketing expense of $1.7 million, accelerated consulting expenses of $1.4 million, higher FDIC insurance premiums of $0.5 million, and recognition of the bank’s first loss guarantee for the Loan Securitization totaling $0.4 million. The remaining increase was experienced in other operating expenses. The $2.5 million increase in salaries and benefits expense was attributable to the build out of the Business Banking division. The $2.1 million increase in occupancy expense was attributable to the new corporate office, and the addition of two additional office locations. The $3.1 million of additional data processing expense was the result of various technology enhancement initiatives related to customer banking services. The $1.7 million of additional marketing expense was related to deposit gathering initiatives as the market continues to experience elevated levels of competition. The additional consulting expense of $1.4 million was related to an earlier-than-anticipated completion of such services. The increase of $6.6 million during 2016 compared to 2015 was primarily the result of increases of $1.6 million in occupancy and equipment expense, $1.4 million in marketing expense, $1.2 million in data processing expense, $0.7 million in consulting expense, and $1.7 million in other operating expenses. The $1.6 million increase in occupancy expense was attributable to new leases related to de novo retail branches and a new corporate office. The $1.4 million increase in marketing costs was related to deposit gathering initiatives in line with the Company's growth strategy. The $1.2 million increase in data processing costs was the result of various technology enhancement initiatives related to customer banking services. The $0.7 million increase in consulting expense was attributable to new consulting arrangements.

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Non-interest expense as a percentage of average assets was 1.37%, 1.51%, and 1.34% in 2017, 2016, and 2015, respectively. Excluding the non-recurring items mentioned above, the ratio was 1.32% in 2017, comparable to 1.31% in 2016, and 1.41% in 2015. The decrease during 2016 compared to 2015 was primarily due to the $894.3 million of growth in average assets outweighing the growth in non-interest expense during 2016.

Income Tax Expense

Income tax expense was $36.9 million in 2017, $60.9 million in 2016, and $31.2 million in 2015. Income tax expense decreased $24.1 million during 2017 compared to 2016 primarily as a result of $44.7 million of lower pre-tax income during 2017 and an income tax benefit of $1.5 million for a discrete item related to distributions of retirement benefits from the Company's Benefit Maintenance Plan (the "BMP"), offset by $3.1 million of tax expense from the re-valuation of the Company's deferred tax assets and liabilities due to the passage of the Act. The $44.7 million decrease in pre-tax income was attributable to the $68.2 million gain on sale of real estate during 2016, offset by the $10.4 million gain on sale of real estate during 2017 and $11.3 million ESOP Charge that occurred during 2016. During 2016, income tax expense increased $29.7 million from 2015, due primarily to an increase of $57.5 million in pre-tax income during the comparative period. The $57.5 million increase in pre-tax income was attributable to the $68.2 million gain on sale of real estate, offset by the $11.3 million ESOP Charge that occurred during 2016.

The Company's consolidated tax rate was 41.5%, 45.7% and 41.1% in 2017, 2016, and 2015, respectively.

Comparison of Financial Condition at December 31, 2017 and December 31, 2016

Assets totaled $6.40 billion at December 31, 2017, $398.0 million above their level at December 31, 2016.

Real estate loans decreased $168.9 million during the year ended December 31, 2017, primarily due to $595.9 million of aggregate amortization of real estate loans (including refinancing of existing loans) and sales of real estate loan participations totaling $47.9 million and $280.0 million for the Loan Securitization. These decreases exceeded the $757.9 million of originations of such loans (also including refinancing of existing loans). C&I loans increased $138.6 million during the year ended December 31, 2017, in-line with the Bank's strategic plans to grow the C&I loan portfolio.

Cash and due from banks and total securities increased $56.0 million during the year ended December 31, 2017, as the Bank bolstered its level of on balance sheet liquidity. Additionally, during the year ended December 31, 2017, the Bank completed the sale of premises held for sale with a book value of $1.4 million at December 31, 2016 and net proceeds of $11.7 million were realized on the sale.

Total liabilities increased $365.3 million during the year ended December 31, 2017. Total borrowings increased by $381.8 million, offset by a decrease of $20.8 million in mortgagor escrow and other deposits as a result of the decline in real estate portfolio. 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 increase in borrowings during the year ended December 31, 2017.

Stockholders' equity increased $32.7 million during the year ended December 31, 2017, due primarily to net income of $51.9 million and $2.3 million of comprehensive income, which added to the cumulative balance of stockholders' equity. Partially offsetting these items were $21.0 million in cash dividends paid during the period and $3.9 million related to the distribution of benefit payments reducing the cumulative balance of stockholders' equity. The decrease in accumulated other comprehensive loss was due to comprehensive income of $3.0 million, which was primarily the result of $0.7 million from changes in unrealized loss on held-to-maturity securities and $1.5 million from changes in retirement plan obligations, offset by a reclassification of $0.7 million from other comprehensive loss to retained earnings as a result of adoption of ASU 2018-02 from the evaluation of deferred tax assets and liabilities from the Tax

Act.

Loan Portfolio Composition

The Bank's loan portfolio totaled $5.59 billion at December 31, 2017, consisting primarily of real estate loans secured by multifamily residential apartment buildings, including buildings organized under a cooperative form of ownership; commercial properties; and one-to-four family residences and individual condominium or cooperative apartments. Within the real estate loan portfolio, $4.37 billion, or 78.2%, were classified as multifamily residential loans; $1.01 billion, or 18.03%, were classified as commercial real estate loans; and $62.7 million, or 1.1%, were classified as one-to-four family residential, including condominium or cooperative apartments. At December 31, 2017, the Bank's loan portfolio additionally included $135.7 million in C&I loans and $1.4 million in other loans, comprised of depositor, consumer installment and other loans.

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The following table sets forth the composition of the Bank's real estate and other loan portfolios (including loans held for sale) in dollar amounts and percentages at the dates indicated:

	At December 31,								
	2017	Percent of Total	2016	Percent of Total	2015	Percent of Total	2014	Percent of Total	2013
Real Estate loans:	(Dollars in Thousands)								
Multifamily residential	$4,374,073	78.23 %	$4,592,282	81.59 %	$3,752,328	80.02 %	$3,292,753	80.05 %	$2,917,380
Commercial real estate	1,008,299	18.03	958,459	17.03	863,184	18.41	745,463	18.12	700,606
One-to-four family, including condominium and cooperative apartment	62,709	1.12	74,022	1.32	72,095	1.54	73,500	1.79	73,956
Construction and land acquisition	9,115	0.16	-	-	-	-	-	-	268
Total real estate loans	5,454,196	97.54	5,624,763	99.94	4,687,607	99.97	4,111,716	99.96	3,692,210
C&I loans	135,660	2.43	2,058	0.03	-	-	-	-	-
Consumer loans:									
Depositor loans	489	0.01	445	0.01	557	0.01	677	0.01	763
Consumer installment and other	890	0.02	2,970	0.02	1,033	0.02	1,152	0.03	1,376
Total consumer loans	1,379	0.03	3,415	0.03	1,590	0.03	1,829	0.04	2,139
Gross loans	5,591,235	100.00%	5,628,178	100.00%	4,689,197	100.00%	4,113,545	100.00%	3,694,349
Net unearned costs	10,882		8,244		7,579		5,695		5,170
Allowance for loan losses	(21,033)		(20,536)		(18,514)		(18,493)		(20,153)
Loans, net	$5,581,084		$5,615,886		$4,678,262		$4,100,747		$3,679,366
Loans serviced for others:									
One-to-four family, including condominium and	$2,664		$3,453		$4,374		$5,215		$6,746

cooperative apartment					
Multifamily residential	334,819	17,625	18,735	19,038	240,517
Total loans serviced for others	$337,483	$21,079	$23,109	$24,253	$247,263

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

	For the Year Ended December 31,									
	2017	Percent of Total	2016	Percent of Total	2015	Percent of Total	2014	Percent of Total	2013	Perc of Tota
	(Dollars in Thousands)									
Real Estate loans:										
ARM	$4,691,101	83.92 %	$4,746,112	84.35 %	$3,692,014	78.73 %	$2,981,135	72.50 %	$2,644,032	71.(
Fixed-rate	763,095	13.65	878,651	15.62	997,183	21.27	1,130,581	27.50	1,048,178	28.:
Total real estate loans	5,454,196	97.57	5,624,763	99.97	4,687,607	100.00	4,111,716	100.00	3,692,210	100
C&I loans:										
ARM	93,330	1.67	2,058	0.03	-	-	-	-	-	-
Fixed-rate	42,330	0.76	-	-	-	-	-	-	-	-
Total C&I loans	135,660	2.43	2,058	0.03	-	-	-	-	-	-
Total real estate and C&I loans	$5,589,856	100.00%	$5,626,821	100.00%	$4,687,607	100.00%	$4,111,716	100.00%	$3,692,210	100

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At December 31, 2017, the Bank had $48.2 million of loan commitments that were accepted by the borrowers. All of these commitments are expected to close during the year ending December 31, 2018.

At December 31, 2017, the Bank's portfolio of whole loans or loan participations that it originated and sold to other financial institutions with servicing retained totaled $337.5 million, all of which were sold without recourse.

Loan Originations, Purchases, Sales and Servicing

For the year ended December 31, 2017, total loan originations were $897.6 million. The following table sets forth the Bank's loan originations (including loans held for sale), sales, purchases and principal repayments for the periods indicated:

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
Gross loans:	(Dollars in Thousands)				
At beginning of period	$5,628,178	$4,689,197	$4,113,545	$3,694,349	$3,501,532
Real estate loans originated:					
Multifamily residential	558,764	1,321,242	1,098,841	748,067	872,421
Commercial real estate	183,701	204,720	236,320	191,944	187,202
One-to-four family, including condominium and cooperative apartment [(1)]	1,268	2,468	5,316	2,302	5,896
Equity lines of credit on multifamily residential or commercial properties	5,034	5,547	3,389	4,657	7,578
Construction and land acquisition	9,115	-	-	-	-
Total mortgage loans originated	757,882	1,533,977	1,343,866	946,970	1,073,097
C&I loans originated	138,643	-	-	-	-
Other loans originated	1,070	3,073	1,334	1,263	1,354
Total loans originated	897,595	1,537,050	1,345,200	948,223	1,074,451
Loans purchased	-	157,782	99,745	225,604	52,031
Less:					
Principal repayments (including satisfactions and refinances)	601,176	755,851	859,721	737,776	923,110
Loans sold [(2)]	332,362	-	9,572	16,865	8,087
Write down of principal balance for expected loss	-	-	-	-	1,685
Loans transferred to OREO	-	-	-	-	783
Gross loans at end of period	$5,591,235	$5,628,178	$4,689,197	$4,113,545	$3,694,349

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

(2) Includes $4.5 million, $9.6 million, $3.9 million and $6.1 million of note sales on problem loans from portfolio during the years ended December 31, 2017, 2015, 2014 and 2013, respectively.

In the event that the Bank were to sell multifamily 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, 2017, the Bank had recorded mortgage servicing rights ("MSR") of $1.6 million associated with the sale of multifamily residential loans to third party institutions.

Loan Maturity and Repricing

As of December 31, 2017, $4.56 billion, or 81.5% of the loan portfolio was scheduled to mature or reprice within five years. In addition at December 31, 2017, loans totaling $650.8 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, 2017 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.

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Amount due to Mature or Reprice During the Year Ending:	Real Estate Loans	C&I Loans	Consumer Loans	Total
	(Dollars in Thousands)			
December 31, 2018	$585,462	$ 88,427	$ 1,379	$675,268
December 31, 2019	807,811	-	-	807,811
December 31, 2020	1,046,062	2,985	-	1,049,047
December 31, 2021	818,391	-	-	818,391
December 31, 2022	1,180,217	25,697	-	1,205,914
Sub-total (within 5 years)	4,437,943	117,109	1,379	4,556,431
December 31, 2023 and beyond	1,016,253	18,551	-	1,034,804
Total	$5,454,196	$ 135,660	$ 1,379	$5,591,235

Asset Quality

Non-accrual Loans

Within the Bank's permanent portfolio, eight non-accrual loans (excluding deposit overdraft loans) totaled $0.5 million at December 31, 2017 and sixteen non-accrual loans (excluding deposit overdraft loans) totaled $4.2 million at December 31, 2016. During the year ended December 31, 2017, one loan totaling $0.07 million was placed on non-accrual status, five non-accrual loans totaling $0.7 million were fully satisfied according to their contractual terms, one non-accrual loan totaling $0.3 million with a partial charge-off of $0.04 million was fully satisfied, three non-accrual loans total $2.8 million were sold and principal amortization of $0.07 million was recognized on four non-accrual loans.

TDRs

At both December 31, 2017 and 2016, 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, 2017 or 2016.

There were no loans modified in a manner that met the criteria of a TDR during the twelve-month period ended December 31, 2017. The Company modified one one-to-four family residential loan in a manner that met the criteria of a TDR during the twelve-month period ended December 31, 2016.

Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 4 to the Company's Consolidated Financial Statements) was approximately $8.2 million, consisting of seven loans, at December 31, 2017, compared to $11.9 million, consisting of thirteen loans, at December 31, 2016. During the year ended December 31, 2017, one non-accrual loan totaling $0.3 million with a partial charge-off of $0.04 million was fully satisfied, two impaired loans totaling $0.4 million were fully satisfied according to their contractual terms, three impaired loans totaling $2.8 million were sold, and principal amortization totaling $0.2 million was recognized on seven impaired loans.

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

	At December 31,				
	2017	2016	2015	2014	2013
Non-accrual loans [1]:	(Dollars in Thousands)				
One-to-four family residential, including condominium and cooperative apartment	$436	$1,012	$1,113	$1,310	$1,242
Multifamily residential and residential mixed-use real estate	-	2,675	287	167	1,197
Commercial mixed-use real estate	93	549	-	-	4,400
Commercial real estate	-	-	207	4,717	5,707
Consumer	4	1	4	4	3
Non-accrual loans held for sale	-	-	-	-	-
Total non-accrual loans	533	4,237	1,611	6,198	12,549
Non-accrual one-to-four family and consumer loans deemed homogeneous loans [2]	(440)	(1,013)	(1,116)	(1,314)	(980)
TDRs[1]:					
One-to-four family residential, including condominium and cooperative apartment	22	407	598	605	934
Multifamily residential and residential mixed-use real estate	619	658	696	1,105	1,148
Commercial mixed-use real estate	4,174	4,261	4,344	4,400	-
Commercial real estate	3,296	3,363	3,428	8,990	16,538
Total TDRs	8,111	8,689	9,066	15,100	18,620
Impaired loans	$8,204	$11,913	$9,561	$19,984	$30,189

(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, 2017 or 2016. There were non-accruing TDRs which totaled $0.2 million, $4.7 million, and $5.7 million at December 31, 2015, 2014, and 2013, respectively, 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 mortgage 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, 2017 or 2016. The Bank did not recognize any provisions for losses on OREO properties during the years ended December 31, 2017 or 2016. The Bank wrote off the balance of one OREO property which totaled $0.02 million during the year ended December 31, 2016.

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

	At December 31,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Total non-accrual loans	$533	$4,237	$1,611	$6,198	$12,549
Non-performing assets:					
TRUP CDOs	-	1,270	1,236	904	898
OREO	-	-	148	18	18
Total non-performing assets	533	5,507	2,995	7,120	13,465
Ratios:					
Total non-accrual loans to total loans	0.01%	0.08 %	0.03 %	0.15 %	0.34 %
Total non-performing assets to total assets	0.01	0.09	0.06	0.16	0.33

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Other Potential Problem Loans

(i) Accruing Loans 90 Days or More Past Due

The Bank continued accruing interest on fourteen loans with an aggregate outstanding balance of $19.9 million at December 31, 2017, and four loans with an aggregate outstanding balance of $3.1 million at December 31, 2016, 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 three real estate loans totaling $0.03 million that were delinquent between 30 and 89 days at December 31, 2017, compared to three such loans totaling $1.9 million at December 31, 2016. 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. There were no delinquent C&I loans between 30 and 89 days at December 31, 2017 or 2016.

(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, 2017 or 2016. Temporary modifications previously entered into performed according to their contractual terms during the years ended December 31, 2017 and 2016.

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 is reflected on the impaired loan line. Please refer to Notes 4 and 5 to the Company's Consolidated Financial Statements for a description of impaired, substandard, special mention and pass graded loans.

	At December 31, 2017		2016		2015		2014		2013
	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	Alloca Amou
	(Dollars in Thousands)								
Impaired loans	$-	0.15 %	$-	0.21 %	$-	0.20 %	$19	0.49 %	$1,77
Substandard loans not deemed impaired (1)	n/a	n/a	n/a	n/a	348	0.37	371	0.44	53
Special Mention loans (1)	n/a	n/a	n/a	n/a	88	0.37	228	0.81	185
Pass graded loans:									
Multifamily residential	15,219	78.20	16,555	81.56	13,942	79.69	13,600	79.38	13,7
Commercial real estate	3,535	17.90	3,816	16.86	3,902	17.88	4,156	17.15	4,18

One-to-four family including condominium and cooperative apartment	116	1.13	145	1.31	214	1.46	95	1.68	188
Construction and land acquisition	123	0.16	-	-	-	-	-	-	-
C&I	2,021	2.44							
Consumer	19	0.02	20	0.06	20	0.03	24	0.05	24
Total	$21,033	100.00%	$20,536	100.00%	$18,514	100.00%	$18,493	100.00%	$20,1

(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, 2017 and 2016 were considered Pass graded loans.

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

	At or for the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Total loans outstanding at end of period [1]	$5,602,117	$5,636,422	$4,696,776	$4,119,240	$3,699,519
Average total loans outstanding during the period[1]	5,843,409	5,212,729	4,328,977	3,964,520	3,606,039
Allowance balance at end of period	21,033	20,536	18,514	18,493	20,153
Allowance for loan losses to total loans at end of period	0.38 %	0.36 %	0.39 %	0.45 %	0.54 %
Allowance for loan losses to total non-performing loans at end of period	3,946.15	484.68	1,149.22	298.37	160.59
Allowance for loan losses to total non-performing loans and TDRs at end of period	243.32	158.87	170.10	71.09	64.66
Ratio of net charge-offs to average loans outstanding during the period	NM	NM	(0.03)	(0.01)	0.02

(1) Total loans represent gross loans (including loans held for sale), inclusive of deferred loan fees and discounts.
NM = not meaningful

Reserve for Loan Commitments

At December 31, 2017, 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:

	At December 31,					
	2017		2016		2015	
	Amortized/ Historical Cost	Fair Value	Amortized/ Historical Cost [1]	Fair Value	Amortized/ Historical Cost [1]	Fair Value
MBS	(Dollars in Thousands)					
Available-for-Sale:						
FHLMC pass through certificates	$276,605	$277,218	$-	$-	$-	$-
FNMA pass through certificates	30,693	30,516	-	-	-	-
Government National Mortgage Association (“GNMA”) pass through certificates	33,276	33,145	360	372	418	431
Agency issued CMOs	10,615	10,505	3,247	3,186	-	-
Total MBS available-for-sale	351,189	351,384	3,607	3,558	418	431
INVESTMENT SECURITIES						
TRUP CDOs held-to-maturity	-	-	5,378	7,296	5,242	7,051
Total investment securities held-to-maturity	-	-	5,378	7,296	5,242	7,051

Available-for-Sale:						
Mutual funds	3,779	4,006	4,011	3,895	3,990	3,756
Total investment securities available-for-sale	3,779	4,006	4,011	3,895	3,990	3,756
Trading:						
Mutual funds	2,648	2,715	7,015	6,953	10,390	10,201
Total trading securities	2,648	2,715	7,015	6,953	10,390	10,201
TOTAL INVESTMENT SECURITIES AND MBS	$357,616	$358,105	$20,011	$21,702	$20,040	$21,439

(1) Amount is net of cumulative credit related Other than Temporary Impairment ("OTTI") on TRUP CDOs held-to-maturity totaling $8.6 million and $8.7 million at December 31, 2016 and 2015 respectively.

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MBS

The Company's consolidated investment in MBS totaled $351.4 million at December 31, 2017. The average duration of these securities was 4.8 years as of December 31, 2017.

The Company typically classifies MBS as available-for-sale in recognition of the prepayment uncertainty associated with these securities, and carries them at fair market value. The fair value of MBS available-for-sale was $0.2 million above their amortized cost at December 31, 2017.

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

	For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
Amortized cost at beginning of period	$ 3,607	$ 418	$ 24,946
(Sales) Purchases, net	348,644	3,267	(22,919)
Principal repayments	(957)	(59)	(1,602)
Premium amortization, net	(105)	(19)	(7)
Amortized cost at end of period	$ 351,189	$ 3,607	$ 418

The increase in the MBS portfolio is 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, 2017, categorized by remaining period to contractual maturity:

	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in Thousands)		
Due within 1 year	$-	$-	- %
Due after 1 year but within 5 years	3,168	3,099	1.53
Due after 5 years but within 10 years	22,177	22,066	2.29
Due after ten years	325,844	326,219	2.51
Total	$351,189	$351,384	2.48 %

With respect to MBS, the entire carrying amount of each security at December 31, 2017 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 4.8 years as of December 31, 2017 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 (primarily equity mutual funds) totaled $6.7 million at December 31, 2017, of which $4.0 million was classified as available-for-sale, and $2.7 million was classified as trading. At December 31, 2017, the aggregate fair value of the available for sale mutual fund investments was $0.2 million above their cost basis, and the aggregate fair value of the mutual fund investments classified as trading was $0.07 million above their cost basis.

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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, 2017			At December 31, 2016			At December 31, 2015		
	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	$362,092	8.2 %	0.07 %	$366,921	8.3 %	0.05 %	$368,671	11.6 %	0.05 %
CDs	1,091,887	24.8	1.47	1,048,465	23.9	1.47	858,847	27.0	1.44
Money market accounts	2,517,439	57.2	0.96	2,576,081	58.6	0.86	1,618,617	50.8	0.81
Interest-bearing checking accounts	124,283	2.8	0.08	106,525	2.4	0.08	78,994	2.5	0.08
Non-interest bearing checking accounts	307,746	7.0	-	297,434	6.8	-	259,181	8.1	-
Totals	$4,403,447	100.0 %	0.91 %	$4,395,426	100.0 %	0.86 %	$3,184,310	100.0 %	0.81 %

The following table presents the deposit activity of the Bank for the periods indicated:

	Year Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
Deposits	$10,142,501	$8,674,460	$6,306,645
Withdrawals	10,172,871	7,495,718	5,805,132
Deposits greater than Withdrawals	$(30,370)	$1,178,742	$501,513
Interest credited	38,391	32,374	23,005
Total increase in deposits	$8,021	$1,211,116	$524,518

The weighted average maturity of the Bank's CDs at December 31, 2017 was 12.7 months, compared to 15.4 months at December 31, 2016. 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, 2017:

	Period to Maturity at December 31, 2017				Total at December 31,		
Interest Rate Range	One Year or Less	Over One Year to Three Years	Over Three Years to Five Years	Over Five Years	2017	2016	2015
	(Dollars in Thousands)				(Dollars in Thousands)		
1.00% and below	$134,719	$20,641	$-	$ -	$155,360	$159,367	$230,982
1.01% to 2.00%	405,533	362,523	34,785	2,504	786,515	708,028	425,120
2.01% to 3.00%	19,712	91,424	186	-	130,023	160,725	183,617

3.01% and above	19,817	-	44	-	19,861	20,345	19,128
Total	$579,781	$474,587	$35,015	$ -	$1,091,887	$1,048,465	$858,847

At December 31, 2017, the Bank had $656.5 million in CDs with a minimum denomination of one-hundred thousand dollars as follows:

Maturity Date	Amount	Weighted Average Rate	
	(Dollars in Thousands)		
Within three months	$ 84,732	1.27	%
After three but within six months	110,705	1.46	
After six but within twelve months	172,020	1.34	
After 12 months	289,055	1.60	
Total	$ 656,512	1.47	%

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The Bank is authorized to accept brokered deposits up to an aggregate limit of 5% of total assets. At December 31, 2017, brokered deposits consisted of $190.4 million, which include purchased CDARS deposits. At December 31, 2016, total brokered deposits consisted of $42.7 million, which include purchased CDARS deposits.

Borrowings

The Bank's total borrowing line with FHLBNY equaled $1.77 billion at December 31, 2017. The Bank had $1.17 billion of FHLBNY advances outstanding at December 31, 2017, and $831.1 million at December 31, 2016. 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,								
	2017			2016			2015		
	Amount	Average Cost		Amount	Average Cost		Amount	Average Cost	
	(Dollars in Thousands)								
Balance outstanding at end of period	$1,170,000	1.67	%	$831,125	1.57	%	$1,166,725	1.32	%
Weighted average balance outstanding during the period	939,185	1.63		972,179	1.45		1,019,020	1.65	
Maximum balance outstanding at month end during period	1,222,500			1,277,125			1,166,725		

The Company had no Securities Sold Under Agreements to Repurchase outstanding at December 31, 2017 or 2016.

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 mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

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.

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Total deposits increased $8.0 million during the year ended December 31, 2017, compared to an increase of $1.17 billion during the year ended December 31, 2016. Within deposits, core deposits (i.e., non-CDs) decreased $35.4 million during the year ended December 31, 2017 and increased $1.02 billion during the year ended December 31, 2016. The decrease during 2017 was primarily driven by of outflows from the bank's online channel, DimeDirect, as the bank's posted rate for the second half of 2017 lagged many of its online competitors, which was offset by an increase of $43.3 million in CDs. The increase during 2016 was due to both successful gathering efforts tied to promotional money market offerings as well as the company's growth strategy for the year ended December 31, 2016. CDs increased by $189.6 million during the year ended December 31, 2016 as a result of promotional offerings during the period.

The Bank increased its outstanding FHLBNY advances by $338.9 million during the year ended December 31, 2017, as the Bank utilized FHLBNY advances to offset declines in online money market deposits. Additionally, the Company took advantage of lower borrowing rates on longer term borrowings (with initial terms of two years and more). The Bank decreased its outstanding FHLBNY advances by $335.6 million during the year ended December 31, 2016, reflecting both the utilization of deposit inflows to fund asset growth and operational needs, as well as the deployment of the cash proceeds from the real estate sale during the year ended December 31, 2016.

During the year ended December 31, 2017, principal repayments totaled $595.9 million on real estate loans (including refinanced loans) compared to $754.6 million during the year ended December 31, 2016. The decrease resulted primarily from a lower prepayment volume.

Proceeds from the sales of available-for-sale pass-through MBS issued by GSEs totaled $15,000 during the year ended December 31, 2017, resulting in a net loss of $0.04 million. There were no sales of pass-through MBS issued by GSEs during the year ended December 31, 2016. There were no sales of agency CMO securities available-for-sale during the years ended December 31, 2017 or 2016.

The Company holds both registered mutual funds (as investment securities available-for-sale) and trading securities as the underlying investments of the BMP, held in a rabbi trust. The Company may sell either registered mutual funds or trading securities on a periodic basis in order to pay retirement benefits to plan retirees. Aggregate proceeds from the sales of registered mutual funds totaled $0.4 million during the year ended December 31, 2017. There were no sales of registered mutual funds during the year ended December 31, 2016. There are no gains or losses recognized from the sales of registered mutual funds. Aggregate proceeds from the sales of trading securities totaled $4.6 million and $3.6 million during the year ended December 31, 2017 and 2016. Net gains or losses from the sales of trading securities are reinvested in additional holdings of trading securities.

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, 2017, the Bank had an additional potential borrowing capacity of $600.7 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, 2017, 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, 2017 and 2016, real estate loan originations totaled $757.9 million and $1.53 billion, respectively. The decrease from the year ended December 31, 2016 to the year ended December 31, 2017 reflected the Company's election to shift the loan portfolio mix and develop the C&I loan portfolio. C&I originations totaled $138.6 million during the year ended December 31, 2017. Purchases of available-for-sale pass-through MBS issued by GSEs totaled $363.7 million during the year ended December 31, 2017 as the Company grew its on-balance sheet liquidity. Security purchases were de-emphasized during the year ended December 31, 2016, as the yield offered on highly graded investment securities was not deemed sufficiently attractive.

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The Holding Company did not repurchase any of its Common Stock during the year ended December 31, 2017 or 2016. As of December 31, 2017, up to 1,104,549 shares remained available for purchase under authorized share purchase programs.

During the year ended December 31, 2017, the Holding Company paid $21.0 million in cash dividends on its Common Stock, up from $20.6 million during the year ended December 31, 2016, reflecting an increase of 717,766 weighted average common shares outstanding shares from January 1, 2017 to December 31, 2017.

Contractual Obligations

The Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances, 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, 2017:

	Payments Due By Period						
	CDs	Weighted Average Rate		Borrowings	Weighted Average Rate		Operating Lease Obligations
Less than one year	$579,781	1.32	%	$667,100	1.57	%	$ $6,682
One year to three years	474,587	1.57		449,900	1.78		13,523
Over three years to five years	35,015	1.61		53,000	2.03		12,965
Over five years	2,504	1.59		115,000	4.50		28,438
Total	$1,091,887	1.44	%	$1,285,000	1.92	%	$ $61,608

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, 2017:

	Less than One Year	One Year to Three Years	Over Three Years to Five Years	Over Five Years	Total
Credit Commitments:					
Available lines of credit	$73,315	$ -	$ -	$ -	$73,315
Other loan commitments	48,181	-	-	-	48,181
Stand-by letters of credit	927	-	-	-	927
Total Off-Balance Sheet Arrangements	$122,423	$ -	$ -	$ -	$122,423

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 $28.7 million of available-for-sale pass-through MBS issued by GSEs as collateral.

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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 that commence on page 62.

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, 2017 or 2016. In the future, the Company may, with appropriate Board approval, engage in hedging transactions utilizing derivative instruments. Trading securities owned by the Company were nominal at both December 31, 2017 and 2016.

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 99% and 95% of multifamily residential loans originated by the Bank during the years ended December 31, 2017 and 2016, respectively, were adjustable rate, with repricing typically occurring after five or seven years. In addition, at December 31, 2017, the Bank has sought to include in its portfolio various types of adjustable-rate one-to-four family loans and adjustable investment securities, with annual repricing terms after a fixed period of one to three years. At December 31, 2017, adjustable-rate real estate loans totaled $4.69 billion, or 73.26% of total assets. At December 31, 2016, adjustable-rate real estate loans totaled $4.75 billion, or 79.03% of total assets.

Deposit Liabilities. As a traditional community-based savings 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, 2017 were $3.31 billion, or 75.2% of total deposits. The balance of CDs as of December 31, 2017 was $1.09 billion, or 24.8% of total deposits, of which $579.8 million, or 53.1% of total CDs, was to mature within one year. The weighted average maturity of the Bank's CDs at December 31, 2017 was 12.7 months, compared to 15.4 months at December 31, 2016. During the years ended December 31, 2017 and 2016, the Bank generally priced its CDs in an effort to encourage the extension of the average maturities of deposit liabilities beyond one year.

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Wholesale Funds. The Bank is a member of the FHLBNY, which provided the Bank with a borrowing line of up to $1.77 billion at December 31, 2017. The Bank borrows from the FHLBNY for various purposes. At December 31, 2017, the Bank had outstanding advances of $1.17 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 firm commitments to originate loans, or 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 EVEs calculated under the various Rate Shock Scenarios.

The calculated EVEs incorporate some asset and liability values derived from the Bank’s valuation model, such as those for mortgage loans and time deposits, and some asset and liability values provided by reputable independent sources, such as values for the Bank's MBS and CMO portfolios, as well as all borrowings. 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, however, 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, 2017 and December 31, 2016, the estimated EVE at both the Pre-Shock Scenario and the +200 Basis Point Rate Shock 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, 2017 and December 31, 2016.

	At December 31, 2017			At December 31, 2016		
	EVE	Dollar Change	Percentage Change	EVE	Dollar Change	Percentage Change
Rate Shock Scenario	(Dollars in Thousands)					
+ 200 Basis Points	$572,782	$(93,677)	-14.1 %	$508,155	$(66,494)	-11.6 %
Pre-Shock Scenario	666,459	-	-	574,649	-	-

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The Bank’s Pre-Shock Scenario EVE increased from $574.6 million at December 31, 2016 to $666.5 million at December 31, 2017. The factors contributing to the more favorable valuation at December 31, 2017 included an increase in the value of the Bank's securities portfolio and a decrease in the value of the Bank’s core deposit liability, CDs, and borrowings. Partially offsetting the favorable valuation at December 31, 2017 was a decrease in the value of the Company’s loan portfolio. The more favorable valuation of the securities portfolio resulted primarily from the replacement of the Company’s impaired trust preferred investment portfolio, which were sold during the year ended December 31, 2017, with high quality, shorter duration agency MBS and CMO securities. The decrease in the value of the Company's core deposit liability, CDs, and borrowings resulted primarily from an increase in market interest rates from December 31, 2016 to December 31, 2017. The decrease in value of the Company’s loan portfolio resulted primarily from an increase in market interest rates from December 31, 2016 to December 31, 2017.

The Bank’s EVE in the +200 basis point Rate Shock Scenario increased from $508.2 million at December 31, 2016 to $572.8 million at December 31, 2017. The factors contributing to the more favorable valuation included the previously noted decrease in the value of the Company’s core deposit liability, CDs, and borrowings, partially offset by a less favorable valuation of the Company’s loan portfolio. Additionally, partially offsetting the favorable valuation is a decrease in the value of the Company’s securities portfolio.

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. No matter the care and precision with which the estimates are derived, however, actual cash flows could differ significantly from the Bank’s estimates, resulting in significantly different net interest income calculations. The following table discloses the estimated changes to the Bank's net interest income assuming gradual changes in interest rates over a one-year period for all maturities beginning December 31, 2017.

Gradual Change in Interest rate of:	Percentage Change in Net Interest Income [1]
+ 200 Basis Points	(4.3)%
+ 100 Basis Points	(2.4)

[1] The impact of 100 and 200 basis point reductions in interest rates are not presented in view of the current level of the federal funds rate and other short-term interest rates.

Item 8. Financial Statements and Supplementary Data

For the Company's Consolidated Financial Statements, see index on page 60.

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 Principal Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2017, 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, 2017 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.

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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, 2017, 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, 2017, the Company's internal control over financial reporting is effective.

Crowe Horwath 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, 2017, which is included on page 61.

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," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers" in the Holding Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 24, 2018 (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2017, 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 controller, or persons performing similar functions. The Code of Business Ethics is published on the Company's website, 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, 8th Floor, Brooklyn, New York 11201, attention Investor Relations.

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.

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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, 2017 regarding the Company's equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights [1]	Weighted average exercise price with respect to outstanding stock options and rights [2]	Number of securities remaining available for issuance under the plan equity compensation plans (excluding securities reflected in column (a)) [3]
Equity compensation plans approved by security holders	356,091	$ 15.53	651,170
Equity compensation plans not approved by security holders	-	-	-
Total	356,091	$ 15.53	651,170

(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, the Dime Community Bancshares, Inc. 2004 Stock Incentive Plan and the Dime Community Bancshares, Inc. 2013 Equity and 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

See index to Consolidated Financial Statements on page 60.

(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

See Index of Exhibits on pages 114-117.

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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 14, 2018.

DIME COMMUNITY BANCSHARES, INC.

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 14, 2018 by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title
/s/ VINCENT F. PALAGIANO Vincent F. Palagiano	Chairman of the Board
/s/ MICHAEL P. DEVINE Michael P. Devine	Vice Chairman of the Board
/s/ KENNETH J. MAHON Kenneth J. Mahon	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ JAMES L. RIZZO James L. Rizzo	Senior Vice President and Comptroller (Principal Financial Officer)
/s/ ROSEMARIE CHEN Rosemarie Chen	Director

/s/ STEVEN D. COHN Steven D. Cohn	Director
/s/ PATRICK E. CURTIN Patrick E. Curtin	Director
/s/ ROBERT C. GOLDEN Robert C. Golden	Director
/s/ KATHLEEN M. NELSON Kathleen M. Nelson	Director
/s/ JOSEPH J. PERRY Joseph J. Perry	Director
/s/ KEVIN STEIN Kevin Stein	Director
/s/ OMER S. J. WILLIAMS Omer S. J. Williams	Director

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders 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, 2017 and 2016, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 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, 2017, 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.

/s/ Crowe Horwath LLP

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

Livingston, New Jersey
March 14, 2018

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DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands except share amounts)

	December 31, 2017	2016
ASSETS:		
Cash and due from banks	$169,455	$113,503
Total cash and cash equivalents	169,455	113,503
Investment securities held-to-maturity (estimated fair value of $7,296 at December 31, 2016) (Fully unencumbered)	-	5,378
Investment securities available-for-sale, at fair value (Fully unencumbered)	4,006	3,895
Mortgage-backed securities (“MBS”) available-for-sale, at fair value (See Note 3)	351,384	3,558
Trading securities	2,715	6,953
Loans:		
Real estate	5,464,067	5,633,007
Commercial and industrial (“C&I”) loans	136,671	2,058
Other loans	1,379	1,357
Less allowance for loan losses	(21,033)	(20,536)
Total loans, net	5,581,084	5,615,886
Premises and fixed assets, net	24,326	18,405
Premises held for sale	-	1,379
Federal Home Loan Bank of New York ("FHLBNY") capital stock	59,696	44,444
Bank Owned Life Insurance ("BOLI")	108,545	86,328
Goodwill	55,638	55,638
Other assets	46,611	50,063
Total Assets	$6,403,460	$6,005,430
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest-bearing deposits	$4,095,701	$4,097,992
Non-interest bearing deposits	307,746	297,434
Total deposits	4,403,447	4,395,426
Escrow and other deposits	82,168	103,001
FHLBNY advances	1,170,000	831,125
Trust Preferred securities payable	-	70,680
Subordinated debt, net	113,612	-
Other liabilities	35,666	39,330
Total Liabilities	5,804,893	5,439,562
COMMITMENTS AND CONTINGENCIES (See Note 19)		
Stockholders' Equity:		
Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at December 31, 2017 and December 31, 2016)	-	-
Common stock ($0.01 par, 125,000,000 shares authorized, 53,624,453 shares and 53,572,745 shares issued at December 31, 2017 and December 31, 2016, respectively, and 37,419,070 shares and 37,445,853 shares outstanding at December 31, 2017 and December 31, 2016, respectively)	536	536

Additional paid-in capital	276,730	278,356
Retained earnings	535,130	503,539
Accumulated other comprehensive loss, net of deferred taxes	(3,641)	(5,939)
Unearned Restricted Stock Award common stock	(2,894)	(1,932)
Common stock held by Benefit Maintenance Plan ("BMP")	(2,736)	(6,859)
Treasury stock, at cost (16,205,383 shares and 16,116,892 shares at December 31, 2017 and December 31, 2016, respectively)	(204,558)	(201,833)
Total Stockholders' Equity	598,567	565,868
Total Liabilities And Stockholders' Equity	$6,403,460	$6,005,430

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016	2015
Interest income:			
Loans secured by real estate	$204,487	$191,856	$171,347
C&I loans	3,072	41	-
Other loans	75	74	93
MBS	542	20	186
Investment securities	577	880	875
Other short-term investments	3,343	2,756	2,290
Total interest income	212,096	195,627	174,791
Interest expense:			
Deposits and escrow	38,391	32,374	23,005
Borrowed funds	20,975	19,767	23,222
Total interest expense	59,366	52,141	46,227
Net interest income	152,730	143,486	128,564
Provision (Credit) for loan losses	520	2,118	(1,330)
Net interest income after provision for loan losses	152,210	141,368	129,894
Non-interest income:			
Service charges and other fees	3,828	3,429	3,323
Mortgage banking income, net	201	96	183
Net gain on securities[(1)] and other assets	2,740	123	1,273
Gain on sale of loans	1,475	-	-
Gain on the sale of premises held for sale	10,412	68,183	-
Income from BOLI	2,217	2,734	2,405
Other	641	1,369	1,432
Total non-interest income	21,514	75,934	8,616
Non-interest expense:			
Salaries and employee benefits	37,365	34,854	31,350
Stock benefit plan compensation expense	1,358	14,651	3,640
Occupancy and equipment	14,201	12,103	10,514
Data processing costs	8,280	5,194	4,017
Advertising and marketing	5,774	4,121	2,685
Federal deposit insurance premiums	2,966	2,515	2,304
Loss from extinguishment of debt	1,272	-	-
Other	13,770	10,393	7,983
Total non-interest expense	84,986	83,831	62,493
Income before income taxes	88,738	133,471	76,017
Income tax expense	36,856	60,957	31,245
Net income	$51,882	$72,514	$44,772
Earnings per Share (“EPS”):			
Basic	$1.38	$1.97	$1.24
Diluted	$1.38	$1.97	$1.23

(1) Amount includes periodic valuation gains or losses on trading securities.

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

	Year Ended December 31,		
	2017	2016	2015
Net Income	$51,882	$72,514	$44,772
Other comprehensive income:			
Change in unrealized holding loss on securities transferred to held-to-maturity	1,299	85	116
Change in unrealized holding loss (gain) on securities available-for-sale	587	56	(1,560)
Change in pension and other postretirement obligations	2,758	1,841	989
Change in unrealized gain on derivative asset	794	3,228	-
Other comprehensive gain (loss) before income taxes	5,438	5,210	(455)
Deferred tax expense (benefit)	2,427	2,348	(201)
Other comprehensive income (loss), net of tax	3,011	2,862	(254)
Total comprehensive income	$54,893	$75,376	$44,518

See notes to consolidated financial statements.

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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	Unallocated Common Stock of Employee Stock Ownership Plan ("ESOP")	Unearned Restricted Stock Award Common Stock	Common Stock Held by BMP	Treasury Stock, at cost	Total Stockholders' Equity
Beginning balance as of January 1, 2015	36,855,019	$529	$254,358	$427,126	$(8,547)	$(2,545)	$(3,066)	$(9,164)	$(198,966)	$459,725
Net Income	-	-	-	44,772	-	-	-	-	-	44,772
Other comprehensive loss, net of tax	-	-	-	-	(254)	-	-	-	-	(254)
Exercise of stock options, net expired options	455,310	4	6,809	-	-	-	-	-	-	6,813
Release of shares, net of forfeitures	81,663	-	526	-	-	-	(1,061)	(190)	1,015	290
Stock-based compensation	-	-	1,105	-	-	232	1,856	-	-	3,193
Cash dividends declared and paid	-	-	-	(20,292)	-	-	-	-	-	(20,292)
Repurchase of common stock	(20,000)	-	-	-	-	-	-	-	(300)	(300)
Ending balance as of December 31, 2015	37,371,992	533	262,798	451,606	(8,801)	(2,313)	(2,271)	(9,354)	(198,251)	493,947
Net Income	-	-	-	72,514	-	-	-	-	-	72,514
Other comprehensive income, net of tax	-	-	-	-	2,862	-	-	-	-	2,862
Exercise of stock options, net expired options	245,992	3	3,567	-	-	-	-	-	-	3,570
Release of shares, net of	85,137	-	659	-	-	-	(780)	(222)	708	365

forfeitures										
Stock-based compensation	-	-	1,276	-	-	231	1,119	-	349	2,975
Shares received to satisfy distribution of retirement benefits	(107,008)	-	(2,717)	-	-	-	-	2,717	(1,820)	(1,820)
Tax benefit from market valuation adjustment on distribution of BMP ESOP shares	-	-	717	-	-	-	-	-	-	717
ESOP Share Acquisition Loan payoff	(140,260)	-	12,056	-	-	2,082	-	-	(2,819)	11,319
Cash dividends declared and paid	-	-	-	(21,581)	-	-	-	-	-	(20,581)
Ending balance as of December 31, 2016	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)
	37,419,070	$536	$276,730	$535,130	$(3,641)	$-	$(2,894)	$(2,736)	$(204,558)	$598,567

Ending balance
as of December
31, 2017

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$51,882	$72,514	$44,772
Adjustments to reconcile net income to net cash provided by operating activities			
Net (gain) loss on the sales of investment securities and MBS available-for-sale	36	-	(1,384)
Net gain on sale of investment securities held-to-maturity	(2,607)	-	-
Net (gain) loss recognized on trading securities	(169)	(83)	111
Net gain on the sale of other real estate owned (“OREO”)	-	(40)	-
Write-down of OREO	-	18	-
Net gain on sale of premises	(10,412)	(68,183)	-
Net gain on sale of loans held for sale	(1,475)	-	-
Net depreciation, amortization and accretion	3,673	2,296	2,738
Stock plan compensation expense (excluding ESOP)	1,687	1,837	1,886
Prepayment of ESOP Share Acquisition Loan	-	11,319	-
ESOP compensation expense	-	1,138	1,307
Provision (Credit) for loan losses	520	2,118	(1,330)
Loss from extinguishment of debt	1,272	-	-
Increase in cash surrender value of BOLI	(2,217)	(2,250)	(2,405)
Income recognized from mortality benefit on BOLI	-	(484)	-
Deferred income tax expense	10,515	1,097	6,883
Reduction in credit related other than temporary impairment (“OTTI”) amortized through interest income	(60)	(104)	(228)
Excess tax benefit of stock benefit plans	-	(171)	(303)
Changes in assets and liabilities:			
Increase in other assets	(8,477)	(2,942)	(1,464)
Increase (Decrease) in other liabilities	(906)	1,979	(430)
Net cash provided by Operating Activities	43,262	20,059	50,153
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of investment securities held-to-maturity	9,167	-	-
Proceeds from maturities of investment securities held-to-maturity	-	-	340
Proceeds from sales of investment securities available-for-sale	377	-	2,070
Proceeds from sales of MBS available-for-sale	15,000	-	24,307
Proceeds from sales of trading securities	4,629	3,648	1,340
Purchases of investment securities available-for-sale	(145)	(22)	(2,134)
Purchases of MBS available-for-sale	(363,680)	(3,267)	-
Acquisition of trading securities	(222)	(317)	(3,090)
Proceeds from calls and principal repayments of MBS available-for-sale	957	59	1,602
Purchase of BOLI	(20,000)	-	-
Purchases of loans	-	(157,782)	(99,745)
Proceeds from sale of loans held for sale	333,176	-	9,572
Net increase in loans	(298,910)	(781,960)	(486,142)
Proceeds from the sale of OREO and real estate owned	-	170	-
Proceeds from surrender of cash surrender value of BOLI	-	1,425	-

Proceeds from the sale of fixed assets and premises held for sale	11,791	75,899	-
Purchases of fixed assets, net	(9,231)	(5,774)	(1,488)
Sale (Purchase) of FHLBNY capital stock, net	(15,252)	14,269	(306)
Net cash used in Investing Activities	(332,343)	(853,652)	(553,674)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in due to depositors	8,021	1,211,116	524,518
Increase (Decrease) in escrow and other deposits	(20,833)	25,871	(14,791)
Repayments of FHLBNY advances	(4,602,075)	(3,178,500)	(2,897,500)
Proceeds from FHLBNY advances	4,940,950	2,842,900	2,890,500
Proceeds from exercise of stock options	792	3,498	6,549
Repayment of trust preferred securities	(70,680)	-	-
Proceeds from subordinated debt issuance, net	113,531	-	-
Excess tax benefit of stock benefit plans	-	171	303
Equity award distribution	236	287	251
BMP ESOP shares received to satisfy distribution of retirement benefits	(3,905)	(1,820)	-
Treasury shares repurchased	-	-	(300)
Cash dividends paid to stockholders	(21,004)	(20,581)	(20,292)
Net cash provided by Financing Activities	345,033	882,942	489,238
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	55,952	49,349	(14,283)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	113,503	64,154	78,437
CASH AND CASH EQUIVALENTS, END OF PERIOD	$169,455	$113,503	$64,154
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for income taxes	$36,515	$58,383	$25,659
Cash paid for interest	59,823	52,320	46,698
Loans transferred to OREO	-	-	130
Loans transferred to held for sale	333,192	-	9,572
Transfer of premises to held for sale	-	1,379	8,799
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	50	51	125
Net increase (decrease) in non-credit component of OTTI of securities	(20)	(34)	9
Reclassification of OCI from sale of investment securities held to maturity	1,229	-	-

See notes to consolidated financial statements.

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (f/k/a The Dime Savings Bank of Williamsburgh) (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, 2017, 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 a $113,612 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 stock savings 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 on line community. The Bank has been a community-oriented financial institution providing financial services and loans for housing within its market areas.

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, 2017, the Bank had twenty-eight retail banking offices located throughout the boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County and Suffolk, New York.

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 its subsidiaries (with the exception of its special purpose entity, Dime Community Capital Trust I, at December 31, 2016), 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.

Investment Securities and MBS - 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 classified as either available-for-sale or trading securities and carried at fair value.

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. While the Holding Company had a small portfolio of mutual fund investments designated as trading at both December 31, 2017 and December 31, 2016, neither the Holding Company nor the Bank actively acquires securities for the purpose of engaging in trading activities.

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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 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.

In determining whether OTTI exists on an equity security, the Company considers the following: 1) the duration and severity of the impairment; 2) the Company's ability and intent to hold the security until it recovers in value (as well as the likelihood of such a recovery in the near term); and 3) whether it is more likely than not that the Company will be required to sell such security before recovery of its individual amortized cost basis less any unrecognized loss. Should OTTI be determined to have occurred based upon this analysis, it is fully recognized through earnings.

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 Bank 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 Bank 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.

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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 5 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 and C&I loans; and 2) 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 5.

The Bank 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.

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Loans Held for Sale - Mortgage 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. Multifamily residential and mixed-use loans sold are generally sold with servicing rights retained. During the year ended December 31, 2017 and 2016 the Bank re-classified certain problematic loans for which it had an executed pending note sale agreement as held for sale. Such loans are carried at the lower of cost or their expected net realizable proceeds.

Derivatives – The Company has a derivative contract designated as a hedge of the variability of cash flows to be received or paid related to a recognized liability ("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 are not highly effective in hedging the changes in expected cash flows of the hedged item are recognized immediately in current 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.

OREO - Properties acquired as a result of foreclosure on a mortgage 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 consumer mortgage 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 stated at original cost. Buildings and furniture, fixtures and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the properties as follows:

Buildings	2.22% to 2.50% per year
Leasehold improvements	Lesser of the useful life of the asset or the remaining non-cancelable terms of the related leases
Furniture, fixtures and equipment	10% per year

Premises Held for Sale – Premises held for sale are carried at the lower of the recorded balance or their likely disposal value. Upon being re-classified as held for sale, depreciation is no longer recognized on these assets.

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Accounting for Goodwill and Other Intangible Assets – In January of 2017, the 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 has elected to early adopt this guidance as of January 1, 2018 for the annual evaluation of its goodwill for the year ended December 31, 2017. Based upon one reporting unit, 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, 2017 and 2016, the Company concluded that no impairment of goodwill existed. As of both December 31, 2017 and 2016, the Company had goodwill totaling $55,638.

Mortgage Servicing Rights ("MSR") – When mortgage 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. Servicing assets 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 MSR 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 operations 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, 2017 or 2016.

Employee Benefits – The Bank maintains the Dime Community Bank KSOP Plan (formerly known as the Dime Community Bank 401(k) Savings Plan (the "401(k) 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.

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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 maintained the ESOP. Compensation expense related to the ESOP is recorded during the period in which the shares become committed to be released to participants. The compensation expense is measured based upon the average fair market value of the stock during the period, and, to the extent that the fair value of the shares committed to be released differs from the original cost of such shares, the difference is recorded as an adjustment to additional paid-in capital. Cash dividends are paid on all ESOP shares, and reduce retained earnings accordingly. During the year ended December 31, 2017, the Company merged the assets of the ESOP into the 401(k) Plan, creating the KSOP.

The Holding Company and Bank maintain 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 18. 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 likely aggregate Long-term Incentive Plan ("LTIP") share payout. In determining the weighted average shares outstanding for basic and diluted EPS, treasury stock and unallocated ESOP shares are excluded and vested restricted stock award shares are included. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

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

	Year Ended December 31,		
	2017	2016	2015
Numerator:			
Net Income per the Consolidated Statements of Operations	$51,882	$72,514	$44,772
Less: Dividends paid on earnings allocated to participating securities	(131)	(109)	(136)
Income attributable to Common Stock	$51,751	$72,405	$44,636

Weighted average common shares outstanding, including participating securities	37,593,715	36,898,951	36,477,854
Less: weighted average participating securities	(163,056)	(186,058)	(245,037)
Weighted average common shares outstanding	37,430,659	36,712,893	36,232,817
Basic EPS	$1.38	$1.97	$1.24
Income attributable to Common Stock	$51,751	$72,405	$44,636
Weighted average common shares outstanding	37,430,659	36,712,893	36,232,817
Weighted average common equivalent shares outstanding	79,790	51,193	89,516
Weighted average common and equivalent shares outstanding	37,510,449	36,764,086	36,322,333
Diluted EPS	$1.38	$1.97	$1.23

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, 2017. There were approximately 77,432 and 126,172 weighted average options for the years ended December 31, 2016, and 2015, respectively, that were not considered in the calculation of diluted EPS since the sum of their exercise price and unrecognized compensation cost exceeded the average market value during the relevant period.

For information about the calculation of likely aggregate LTIP share payout, see Note 18.

Comprehensive Income - Comprehensive income for the years ended December 31, 2017, 2016 and 2015 included 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 2.

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, 2017, 2016 and 2015, 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.

Recently Issued Accounting Standards - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 impacts any entity that either enters into contracts with customers to transfer goods or services, or that enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance or lease contracts). Under ASU 2014-09, an entity is required to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, as well as qualitative and quantitative disclosure related to contracts with certain customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Consideration - Reporting Revenue Gross Versus Net. The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU affect the guidance in ASU 2014-09, which is not yet effective. In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU 2017-13 amends the early adoption date option for certain companies. Both ASU 2014-09 and the amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017.

The Company's revenue primarily consists of net interest income and noninterest income. Interest income is explicitly excluded from the scope of the guidance. Other revenue streams excluded from the scope are revenues from financial instruments such as loans and securities. The Company's only material in-scope revenue stream that is subject to Topic 606 is service fees on deposit accounts (including interchange fees). The Company has evaluated the impact of ASU 2014-09 and the amendments upon adoption as of January 1, 2018 and has concluded that there is not a material impact on its consolidated financial statements as the majority of the Company's revenue streams are not within the scope of Topic 606. ASU 2014-09 will require additional disclosures beginning with the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, an amendment to Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The objectives of the ASU are to: (1) require equity investments to be measured at fair value, with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the balance sheet, (4) require the use of the exit price notion when measuring the fair value of financial instruments, and (5) clarify the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Liabilities, an amendment to ASU 2016-01. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments in these ASUs are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has evaluated the impact of ASU 2016-01 and 2018-03 upon adoption as of January 1, 2018 and has concluded that there is not a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires companies that lease valuable assets to recognize on their balance sheets the assets and liabilities generated by contracts longer than a year. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, however, early adoption is permitted. The Company is evaluating the potential impact of ASU 2016-02 on its consolidated financial statements.

In June 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. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. This guidance also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this guidance is effective for fiscal years and interim periods beginning after December 31, 2019. The Company has established a committee that is assessing system requirements, gathering data, and evaluating the impact of the ASU on its consolidated financial statements. The Company expects to recognize a one-time cumulative effect increase to the allowance for loan losses as of the beginning of the reporting period in which the ASU takes effect, however, cannot yet determine the magnitude of the impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). ASU 2017-04 eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for the Company beginning January 1, 2020, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The Company adopted this standard for the year ended December 31, 2017 in conjunction with its goodwill impairment test analysis as of December 31, 2017. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated financial statements.

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In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715). ASU 2017-07 requires companies that offer employee defined pension plans, other postretirement benefit plans, or other types of benefit plans accounted for under Topic 715 to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, however, early adoption is permitted. The Company has evaluated the impact of ASU 2017-07 upon adoption as of January 1, 2018 and has concluded that there is not a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, however, early adoption is permitted. The adoption of ASU 2017-08 will not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in ASU 2017-09 provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, however, early adoption is permitted. The Company has evaluated the impact of ASU 2017-09 upon adoption as of January 1, 2018 and has concluded that there is not a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in ASU 2017-02 refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. The provisions in the amendment create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. The amendment also makes certain targeted improvements to simplify the application of hedge accounting guidance. provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, however, early adoption is permitted. The Company adopted this standard on January 1, 2018. The adoption of ASU 2017-12 did not have a material impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard permits the reclassification of certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) 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 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 standard is effective for the Company beginning January 1, 2018. The Company adopted this standard for the year ended December 31, 2017 (see Note 2 – Other Comprehensive Income) for the impact on the Company’s consolidated financial statements as a result of adoption.

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2. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Held-to-Maturity and Transferred Securities	Available-for-Sale Securities	Defined Benefit Plans	Derivative Asset	Total Accumulated Other Comprehensive Income (Loss)
Balance as of January 1, 2016	$ (760)	$ (122)	$ (7,919)	$ -	$ (8,801)
Other comprehensive income (loss) before reclassifications	47	30	1,009	1,833	2,919
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	-	(57)	(57)
Net other comprehensive income (loss) during the period	47	30	1,009	1,776	2,862
Balance as of December 31, 2016	(713)	(92)	(6,910)	1,776	(5,939)
Other comprehensive income before reclassifications	39	307	786	297	1,469
Amounts reclassified from accumulated other comprehensive income (loss)	674	20	733	155	1,542
Net other comprehensive income during the period	713	327	1,519	452	3,011
Reclassification of tax effects on other comprehensive income[(1)]	-	50	(1,242)	479	(713)
Balance as of December 31, 2017	$ -	$ 285	$ (6,633)	$ 2,707	$ (3,641)

[(1)] 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.

	For the year ended December 31,		
	2017	2016	2015
Change in unrealized holding loss on securities transferred to held-to-maturity:			
Accretion (Amortization) of previously recognized non-credit component of OTTI	$20	$34	$(9)
Change in unrealized loss on securities transferred to held-to-maturity	50	51	125
Reclassification adjustment for net gain included in net gain on securities and other assets	1,229	-	-
Net change	1,299	85	116
Tax expense	586	38	50
Net change in unrealized holding loss on securities held-to-maturity and transferred securities	713	47	66
Change in unrealized holding gain on securities available-for-sale:			
Change in net unrealized gain during the period	551	56	(176)

Reclassification adjustment for net losses (gains) included in net gain on securities and other assets	36	-	(1,384)
Net change	587	56	(1,560)
Tax expense (benefit)	260	26	(702)
Net change in unrealized holding gain on securities available-for-sale	327	30	(858)
Change in pension and other postretirement obligations:			
Reclassification adjustment for expense included in salaries and employee benefits expense	1,421	1,841	1,890
Change in the net actuarial gain or loss	1,337	-	(901)
Net change	2,758	1,841	989
Tax expense	1,239	832	451
Net change in pension and other postretirement obligations	1,519	1,009	538
Change in unrealized loss on derivative asset:			
Change in net unrealized loss during the period	511	3,205	-
Reclassification adjustment for expense included in interest expense	283	23	-
Net change	794	3,228	-
Tax expense	342	1,452	-
Net change in unrealized loss on derivative asset	452	1,776	-
Other comprehensive income (loss)	$3,011	$2,862	$(254)

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3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following tables summarize the major categories of securities owned by the Company (excluding trading securities) for the periods indicated:

	At December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Registered Mutual Funds	$3,779	$ 311	$ (84)	$4,006
Pass-through MBS issued by Government Sponsored Entities (“GSEs”)	340,574	681	(376)	340,879
Agency Collateralized Mortgage Obligation (“CMO”)	10,615	4	(114)	10,505
Total investment securities available-for-sale	$354,968	$ 996	$ (574)	$355,390

	At December 31, 2016			
	Amortized Cost [(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities held-to-maturity:				
Pooled bank trust preferred securities (“TRUP CDOs”)	$5,378	$ 2,221	$ (303)	$7,296
Investment securities available-for-sale:				
Registered Mutual Funds	4,011	62	(178)	3,895
Pass-through MBS issued by GSEs	360	12	-	372
Agency CMO	3,247	-	(61)	3,186
Total investment securities available-for-sale	7,618	74	(239)	7,453
Total investment securities	$12,996	$ 2,295	$ (542)	$14,749

(1) Amount represents the purchase amortized / historical cost less any OTTI charges (credit or non-credit related) previously recognized. For the TRUP CDOs, amount is also net of the $755 unamortized portion of the unrealized loss that was 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).

Securities pledged at December 31, 2017 had a carrying amount of $28,738 were pledge as collateral for the Bank’s first loss guarantee (see Note 19). There were no pledged securities at December 31, 2016.

At December 31, 2017, the Company held $277,218 of investment securities available-for-sale guaranteed by Freddie Mac which represent an amount greater than 10% of stockholders’ equity. At December 31 2016, there were no holdings of investment securities of any one issuer in an amount greater than 10% of stockholders' equity.

At December 31, 2017, available-for-sale pass-through MBS issued by GSEs possessed a weighted average contractual maturity of 12.8 years and a weighted average estimated duration of 4.8 years. As of December 31, 2017, the available-for-sale agency CMO securities had a weighted average term to maturity of 16.3 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 Company does not intend to classify any securities as held-to-maturity for the foreseeable future. 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, 2016.

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Proceeds from the sales of available-for-sale pass-through MBS issued by GSEs totaled $15,000 during the year ended December 31, 2017. Gross losses of $36 were recognized on these sales. There were no sales of pass-through MBS issued by GSEs during the year ended December 31, 2016. Proceeds from the sales of available-for-sale pass-through MBS issued by GSEs totaled $24,307 during the year ended December 31, 2015. Gross gains of $1,395 and gross losses of $7 were recognized on these sales.

The tax benefit related to the loss on sales of MBS available-for-sale recognized during the year ended December 31, 2017 was $16, and the tax provisions related to the gains on sales of MBS available-for-sale recognized during the year ended December 31, 2015 was $624.

There were no sales of agency CMO securities available-for-sale during the years ended December 31, 2017, 2016 or 2015.

The Company holds both registered mutual funds (as investment securities available-for-sale) and trading securities as the underlying investments of the BMP, held in a rabbi trust. The Company may sell either registered mutual funds or trading 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 registered mutual funds or trading securities. A summary of the sales of registered mutual funds and trading securities is listed below for the periods indicated:

	For the Year ended December 31,		
	2017	2016	2015
Proceeds:			
Investment securities available for sale (Registered Mutual Funds)	$ 377	$ -	$ 2,070
Trading Securities	$ 4,629	$ 3,648	$ 1,340

The remaining gain or loss on securities shown in the unaudited condensed consolidated statements of income during those periods resulted from market valuation changes or sales of trading securities.

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:

	At December 31, 2017					
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available-for-sale:						
Registered Mutual Funds	$-	$ -	$ 2,591	$ 84	$2,591	$ 84
Pass through MBS issued by GSEs	137,664	376	-	-	137,664	376
Agency CMO	4,901	45	3,168	69	8,069	114

	At December 31, 2016					
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities held-to-maturity:						
TRUP CDOs	$-	$ -	$ 2,439	$ 303	$2,439	$ 303

Investment securities available-for-sale:						
Registered Mutual Funds	1,308	47	1,747	131	3,055	178
Agency CMO	3,186	61	-	-	3,186	61

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TRUP CDOs That Have Maintained an Unrealized Holding Loss for 12 or More Consecutive Months

The Company sold its TRUP CDOs portfolio during the year ended December 31, 2017. At December 31, 2016, there were two TRUP CDOs with unrealized holding losses 12 or more consecutive months. The impairment of one of those TRUP CDOs was deemed temporary, as management believed that the full recorded balance of the investments would be realized. In making this determination, management considered the following at December 31, 2016:

- Based upon an internal review of the collateral backing the TRUP CDOs portfolio, which accounted for current and prospective deferrals, the securities could reasonably be expected to continue making all contractual payments
- There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell these securities prior to their forecasted recovery or maturity
- The securities have a pool of underlying issuers comprised primarily of banks
- None of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- The securities feature either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
- The securities are adequately collateralized

The unrealized loss on the second TRUP CDO with unrealized holding losses for 12 or more consecutive months was considered to be other than temporary. See below for a discussion of OTTI.

TRUP CDOs with OTTI

On September 1, 2008, the Bank transferred eight TRUP CDOs (i.e., investment securities primarily secured by the preferred debt obligations of a pool of U.S. banks with a small portion secured by debt obligations of insurance companies) with an amortized cost of $19,922 from its available-for-sale portfolio to its held-to-maturity portfolio. Based upon the lack of an orderly market for these securities, management determined that a formal election to hold them to maturity was consistent with its initial investment decision. On the date of transfer, the unrealized loss of $8,420 on these securities continued to be recognized as a component of accumulated other comprehensive loss within the Company's consolidated stockholders' equity (net of income tax benefit), and was expected to be amortized over the remaining average life of the securities. Activity related to amortization of unrealized transfer loss previously recognized upon transfer of TRUP CDOs to held to maturity securities was as follows:

	For the Year Ended December 31,	
	2017	2016
Cumulative balance at the beginning of the period	$ 756	$ 807
Amortization	(50)	(51)
Reduction for previous credit losses realized on securities sold	(706)	-
Cumulative balance at end of the period	$ -	$ 756

As of each reporting period through June 30, 2017, the Company applied the protocol established by ASC 320-10-65 in order to determine whether OTTI existed for its TRUP CDOs and/or to measure, for TRUP CDOs that were determined to be other than temporarily impaired, the credit related and non-credit related components of OTTI. The Company sold its entire TRUP CDO portfolio in August of 2017. As of the date of the sale of the TRUP CDO portfolio, five TRUP CDOs were determined to meet the criteria for OTTI based upon this analysis, and no additional OTTI charges were recognized.

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The following table provides a reconciliation of the pre-tax OTTI charges recognized on the Company's TRUP CDOs:

	At or for the Year Ended December 31, 2017		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
Cumulative pre-tax balance at the beginning of the period	$ 8,613	$ 544	$ 9,157
Amortization of previously recognized OTTI	(60)	(20)	(80)
Reductions for previous credit losses realized on securities sold during the year	(8,553)	(524)	(9,077)
Cumulative pre-tax balance at end of the period	$ -	$ -	$ -

	At or for the Year Ended December 31, 2016			At or for the Year Ended December 31, 2015		
	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge	Credit Related OTTI Recognized in Earnings	Non-Credit OTTI Recognized in Accumulated Other Comprehensive Loss	Total OTTI Charge
Cumulative pre-tax balance at the beginning of the period	$8,717	$ 578	$9,295	$8,945	$ 569	$ 9,514
(Amortization) Accretion of previously recognized OTTI	(104)	(34)	(138)	(228)	9	(219)
Cumulative pre-tax balance at end of the period	$8,613	$ 544	$9,157	$8,717	$ 578	$ 9,295

There was no activity related to OTTI charges recognized on the Company's registered mutual funds during the year ended December 31, 2017, 2016, or 2015.

4. LOANS RECEIVABLE AND CREDIT QUALITY

Loans 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. 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.

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), 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), commercial real estate, acquisition, development and construction ("ADC"), C&I, as well as all one-to four family residential and cooperative and condominium apartment loans. Prior to the year ended December 31, 2017, the analysis of one-to-four family residential and cooperative and condominium apartment loans included only loans with balances in excess of the FNMA Limits that were deemed to meet the definition of impaired. 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.

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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 Bank had no loans classified as doubtful at December 31, 2017 or December 31, 2016. All real estate loans not classified as Special Mention or Substandard were deemed pass loans at both December 31, 2017 and December 31, 2016.

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:

	Balance at December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
One-to-four family residential, including condominium and cooperative apartment	$62,042	$178	$ 875	$ -	$63,095
Multifamily residential and residential mixed-use	4,374,388	6,326	466	-	4,381,180
Commercial mixed-use real estate	396,647	-	4,908	-	401,555
Commercial real estate	602,448	1,897	4,703	-	609,048
ADC	9,189	-	-	-	9,189
Total real estate	5,444,714	8,401	10,952	-	5,464,067
C&I	136,671	-	-	-	136,671
Total Real Estate and C&I	$5,581,385	$8,401	$ 10,952	$ -	$5,600,738

	Balance at December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Real Estate:					
One-to-four family residential, including condominium and cooperative apartment	$72,325	$212	$ 1,485	$ -	$74,022
Multifamily residential and residential mixed-use	4,589,838	3,488	7,200	-	4,600,526
Commercial mixed-use real estate	398,139	535	5,465	-	404,139
Commercial real estate	546,568	525	7,227	-	554,320
Total Real Estate	$5,606,870	$4,760	$ 21,377	$ -	$5,633,007

The credit risk profile of C&I loans as of December 31, 2016 was included in the analysis of consumer loans. 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:

At December 31,	
2017	2016(1)

Performing	$ 1,375	$ 3,414
Non-accrual	4	1
Total	$ 1,379	$ 3,415

(1) Included in the balance of consumer loans at December 31, 2016 are $2,058 of C&I loans. Subsequent to December 31, 2016, C&I loans were evaluated based on risk ratings and included in the preceding credit risk profile table.

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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:

	At December 31, 2017						
	30 to 59 Days Past Due	60 to 89 Days Past Due	Accruing Loans 90 Days or More Past Due	Non-accrual [(1)]	Total Past Due	Current	Total Loans
Real Estate:							
One-to-four family residential, including condominium and cooperative apartment	$10	$ 23	$ 6,397	$ 436	$ 6,866	$56,229	$63,095
Multifamily residential and residential mixed-use	-	-	1,669	-	1,669	4,379,511	4,381,180
Commercial mixed-use real estate	-	-	520	93	613	400,942	401,555
Commercial real estate	-	-	11,349	-	11,349	597,699	609,048
ADC	-	-	-	-	-	9,189	9,189
Total real estate	$10	$ 23	$ 19,935	$ 529	$ 20,497	$5,443,570	$5,464,067
C&I	$-	$ -	$ -	$ -	$ -	$136,671	$136,671
Consumer	$4	$ -	$ -	$ 4	$ 8	$1,371	$1,379

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2017.

	At December 31, 2016						
	30 to 59 Days Past Due	60 to 89 Days Past Due	Accruing Loans 90 Days or More Past Due	Non-accrual [(1)]	Total Past Due	Current	Total Loans
Real Estate:							
One-to-four family residential, including condominium and cooperative apartment	$188	$ -	$ 1,513	$ 1,012	$ 2,713	$71,309	$74,022
Multifamily residential and residential mixed-use	-	-	1,557	2,675	4,232	4,596,294	4,600,526
Commercial mixed-use real estate	-	-	-	549	549	403,590	404,139
Commercial real estate	1,732	-	-	-	1,732	552,588	554,320
Total real estate	$1,920	$ -	$ 3,070	$ 4,236	$ 9,226	$5,623,781	$5,633,007
Consumer	$-	$ -	$ -	$ 1	$ 1	$3,414	$3,415

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2016.

Accruing Loans 90 Days or More Past Due:

The Bank continued accruing interest on fourteen real estate loans with an aggregate outstanding balance of $19,935 at December 31, 2017, and four real estate loans with an aggregate outstanding balance of $3,070 at December 31, 2016, 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.

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TDRs

The following table summarizes outstanding TDRs by underlying collateral type as of the dates indicated:

	As of December 31, 2017		As of December 31, 2016	
	No. of Loans	Balance	No. of Loans	Balance
One-to-four family residential, including condominium and cooperative apartment	1	$ 22	2	$ 407
Multifamily residential and residential mixed-use	3	619	3	658
Commercial mixed-use real estate	1	4,174	1	4,261
Commercial real estate	1	3,296	1	3,363
Total real estate	6	$ 8,111	7	$ 8,689

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, 2017 or 2016.

The Company has not restructured any C&I or troubled consumer loans, as its consumer loan portfolio has not experienced any problem issues warranting restructuring. Therefore, all TDRs were collateralized by real estate at both December 31, 2017 and December 31, 2016.

There were no loans modified in a manner that met the criteria of a TDR during the year ended December 31, 2017 or 2015. The Company modified one one-to-four family residential loan in a manner that met the criteria of a TDR during the year ended December 31, 2016. The outstanding recorded investment pre-modification and post-modification totaled $33.

The Bank's allowance for loan losses at December 31, 2017 and 2016 included no allocated reserve associated with TDRs. Activity related to reserves associated with TDRs was immaterial during the years ended December 31, 2017 and 2016.

As of December 31, 2017 and December 31, 2016, 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, 2017, 2016 or 2015 (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.

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.

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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.

Please refer to Note 5 for tabular information related to impaired loans.

5. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses consists of specific and general components. At December 31, 2017, the Bank's periodic evaluation of its allowance for loan losses (specific or general) was comprised of two primary components: (1) impaired loans and (2) pass graded loans. At December 31, 2016, the Bank's periodic evaluation of its allowance for loan losses (specific or general) was comprised of four primary components: (1) impaired loans; (2) non-impaired substandard loans; (3) non-impaired special mention loans; and (4) pass graded loans. Within these components, the Company has identified the following portfolio segments for purposes of assessing its allowance for loan losses (specific or general): (1) real estate loans; and (2) consumer loans. Consumer loans were evaluated in aggregate as of both December 31, 2017 and December 31, 2016.

Real Estate and C&I Loans

Impaired Loan Component

All loans that are deemed to meet the definition of impaired are individually evaluated for impairment. 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 in the case of certain performing TDRs). For impaired loans on non-accrual status, either of the initial two measurements is utilized.

All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the present value of the expected cash flows from the debt service or the potential net liquidation proceeds of the underlying collateral in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, the likely realizable net proceeds from either a note sale or the liquidation of the collateral are generally considered when measuring impairment. While measured impairment is generally charged off immediately, impairment attributed to a reduction in the present value of expected cash flows of a performing TDR is generally reflected as an allocated reserve within the allowance for loan losses. At December 31, 2017 and December 31, 2016, there were no allocated reserves related to TDRs within the allowance for loan losses.

Smaller balance homogeneous real estate loans, such as condominium or cooperative apartment and one-to-four family residential real estate loans with balances equal to or less than the FNMA Limits, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

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Non-Impaired Loan Component

During the year ended December 31, 2016 the Bank refined the calculation of the allowance for loan losses associated with non-impaired loans using third party software purchased by the Bank. The software model is substantially similar to the previous model used by the Bank whereby the primary drivers of the calculation are historical charge-offs by loan type and certain qualitative elements. The historical loss look-back period for Substandard and Special Mention non-impaired loans was expanded from the previously used twelve month period to a forty-eight month period, which is aligned with the same historical loss look-back period used for all Pass-graded loans. Management has evaluated the impact of these changes and concluded that they are not material to the overall allowance for non-impaired loans.

The Bank initially looks to the underlying collateral type when determining the allowance for loan losses associated with pass graded real estate loans. The following underlying collateral types are analyzed separately: 1) one- to four family residential and condominium or cooperative apartments; 2) multifamily residential and residential mixed use; 3) commercial mixed use real estate, 4) commercial real estate; and 5) construction and land acquisition. Within the analysis of each underlying collateral type, the following elements are additionally considered and provided weighting in determining the allowance for loan losses for pass graded real estate loans:

(i) Charge-off experience (including peer charge-off experience)
(ii) Economic conditions
(iii) Underwriting standards or experience
(iv) Loan concentrations
(v) Regulatory climate
(vi) Nature and volume of the portfolio
(vii) Changes in the quality and scope of the loan review function

The following is a brief synopsis of the manner in which each element is considered:

(i) Charge-off experience - Loans within the pass graded loan portfolio are segmented by significant common characteristics, against which historical loss rates are applied to reflect probable incurred loss percentages. The Bank also reviews and considers the charge-off experience of peer banks in its lending marketplace in order to determine the existence of potential losses that could take a longer period to flow through its allowance for loan losses.

(ii) Economic conditions - At both December 31, 2017 and December 31, 2016, the Bank assigned a loss allocation to its entire pass graded real estate loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of, and recent trends in: 1) the local and national unemployment rate, 2) residential and commercial vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank’s loan portfolio.

(iii) Underwriting standards or experience - Underwriting standards are reviewed to ensure that changes in the Bank's lending policies and practices are adequately evaluated for risk and reflected in its analysis of potential credit losses. Loss expectations associated with changes in the Bank’s lending policies and practices, if any, are then incorporated into the methodology.

(iv) Loan concentrations - The Bank regularly reviews its loan concentrations (borrower, collateral type and location) in order to ensure that heightened risk has not evolved that has not been captured through other factors. The risk component of loan concentrations is regularly evaluated for reserve adequacy.

(v) Regulatory climate – Consideration is given to public statements made by the banking regulatory agencies that have a potential impact on the Bank’s loan portfolio and allowance for loan losses.

(vi) Nature and volume of the portfolio – The Bank considers any significant changes in the overall nature and volume of its loan portfolio.

(vii) Changes in the quality and scope of the loan review function – The Bank considers the potential impact upon its allowance for loan losses of any adverse change in the quality and scope of the loan review function.

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Consumer Loans

Due to their small individual balances, the Bank does not evaluate individual consumer loans for impairment. Loss percentages are applied to aggregate consumer loans based upon both their delinquency status and loan type. These loss percentages are derived from a combination of the Company's historical loss experience and/or nationally published loss data on such loans. Consumer loans in excess of 120 days delinquent are typically fully charged off against the allowance for loan losses.

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

	Real Estate Loans							
	One-to-Four Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed Use	Commercial Mixed Use Real Estate	Commercial Real Estate	ADC	Total Real Estate	C&I	Consumer Loans
Beginning balance as of January 1, 2015	$ 150	$13,852	$ 1,644	$ 2,823	$-	$18,469	$-	$ 24
Provision (credit) for loan losses	222	309	21	(1,880)	-	(1,328)	-	(2)
Charge-offs	(115)	(48)	(37)	(7)	-	(207)	-	(2)
Recoveries	6	5	24	1,525	-	1,560	-	-
Ending balance as of December 31, 2015	$ 263	$14,118	$ 1,652	$ 2,461	$-	$18,494	$-	$ 20
Provision (credit) for loan losses	(48)	2,473	58	(366)	-	2,117	-	1
Charge-offs	(79)	(92)	(12)	-	-	(183)	-	(3)
Recoveries	9	56	-	23	-	88	-	2
Ending balance as of December 31, 2016	$ 145	$16,555	$ 1,698	$ 2,118	$-	$20,516	$-	$ 20
Provision (credit) for loan losses	(28)	(1,313)	(314)	29	123	(1,503)	2,021	2
Charge-offs	(16)	(104)	-	-	-	(120)	-	(4)
Recoveries	15	81	4	-	-	100	-	1
Ending balance as of December 31, 2017	$ 116	$15,219	$ 1,388	$ 2,147	$123	$$18,993	$2,021	$ 19

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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:

	At or for the Year Ended December 31, 2017							
	Real Estate Loans							
	One-to-Four Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed-Use	Commercial Mixed-Use Real Estate	Commercial Real Estate	ADC	Total Real Estate	C&I	Consumer Loans
Allowance for loan losses:								
Ending allowance balance:								
Individually evaluated for impairment	$-	$-	$ -	$ -	$-	$-	$-	$ -
Collectively evaluated for impairment	116	15,219	1,388	2,147	123	18,993	2,021	19
Total ending allowance balance	$116	$15,219	$ 1,388	$ 2,147	$123	$18,993	$2,021	$ 19
Loans:								
Individually evaluated for impairment	$22	$619	$ 4,267	$ 3,296	$-	$8,204	$-	$ -
Collectively evaluated for impairment	63,073	4,380,561	397,288	605,752	9,189	5,455,863	136,671	1,379
Total ending loans balance	$63,095	$4,381,180	$ 401,555	$ 609,048	$9,189	$5,464,067	$136,671	$ 1,379

	At or for the Year Ended December 31, 2016					
	Real Estate Loans					Consumer Loans
	One-to-Four Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed-Use	Commercial Mixed-Use Real Estate	Commercial Real Estate	Total Real Estate	
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ -	$-	$ -	$ -	$-	$ -
Collectively evaluated for impairment	145	16,555	1,698	2,118	20,516	20
	$ 145	$16,555	$ 1,698	$ 2,118	$20,516	$ 20

Total ending allowance balance						
Loans:						
Individually evaluated for impairment	$ 407	$3,333	4,810	$ 3,363	$11,913	$ -
Collectively evaluated for impairment	73,615	4,597,193	399,329	550,957	5,621,094	3,415
Total ending loans balance	$ 74,022	$4,600,526	$ 404,139	$ 554,320	$5,633,007	$ 3,415

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There were no impaired real estate loans with a related allowance recorded for the years ended December 31, 2017 or 2016. The following tables summarize impaired real estate loans with no related allowance recorded as of the periods indicated (by collateral type within the real estate loan segment):

	For the Year Ended December 31, 2017			For the Year Ended December 31, 2016		
	Unpaid Principal Balance	Recorded Investment[(1)]	Related Allowance	Unpaid Principal Balance	Recorded Investment[(1)]	Related Allowance
With no related allowance recorded:						
One-to-four Family Residential, Including Condominium and Cooperative Apartment	$ 22	$ 22	$ -	$ 407	$ 407	$ -
Multifamily Residential and Residential Mixed Use	619	619	-	3,333	3,333	-
Commercial Mixed Use Real Estate	4,267	4,267	-	4,810	4,810	-
Commercial Real Estate	3,296	3,296	-	3,363	3,363	-
Total with no related allowance recorded	$ 8,204	$ 8,204	$ -	$ 11,913	$ 11,913	$ -

(1) 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:

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	Average Recorded Investment[(1)]	Interest Income Recognized	Average Recorded Investment[(1)]	Interest Income Recognized	Average Recorded Investment[(1)]	Interest Income Recognized
With no related allowance recorded:						
One-to-four Family Residential, Including Condominium and Cooperative Apartment	$ 325	$ 30	$ 443	$ 53	$ 601	$ 44
Multifamily Residential and Residential Mixed Use	2,222	85	2,515	183	1,095	71
Commercial Mixed Use Real Estate	4,485	174	4,468	176	4,379	176
Commercial Real Estate	3,330	133	3,437	136	5,470	140
Total with no related allowance recorded	10,362	422	10,863	548	11,545	431
With related allowance recorded:						
One- to Four Family Residential, Including Condominium and Cooperative Apartment	-	-	-	-	-	-
Multifamily Residential and Residential Mixed Use	-	-	-	-	-	-
Commercial Mixed Use Real Estate	-	-	-	-	-	-
Commercial Real Estate	-	-	-	-	1,100	97
Total with related allowance recorded	-	-	-	-	1,100	97
Ending balance	$ 10,362	$ 422	$ 10,863	$ 548	$ 12,645	$ 528

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

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6. 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 recognized a liability of $420 as of December 31, 2017 for the exposure to the reimbursement agreement with FHLMC.

7. MORTGAGE SERVICING ACTIVITIES

The Bank services loans for others having principal balances outstanding of approximately $337,483 and $21,079 at December 31, 2017 and 2016, respectively. Mortgage loans serviced for others are not reported as assets. Servicing loans for others generally consists of collecting mortgage 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 approximately $3,107 and $206 at December 31, 2017 and 2016, 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 MSR in other assets, and has elected to account for the MSR under the "amortization method" prescribed under GAAP. MSR activity prior to the year December 31, 2017 was not material. At December 31, 2017, there is no associated valuation allowance for MSRs. The activity for MSRs for the period indicated is as follows:

Year Ended

	December 31, 2017	
Beginning of the year	$	152
Additions	$	1,491
Amortized to expense		(49)
End of year	$	1,594

The fair-value of servicing rights was $1,594 at year-end 2017. Fair value at December 31, 2017 was determined using a discount rate of 12.0%, prepayment speeds ranging from 16% to 20%, depending on the stratification of the specific servicing right, and a weighted average default rate of 1.30%.

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8. PREMISES AND FIXED ASSETS, NET AND PREMISES HELD FOR SALE

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

	At December 31,	
	2017	2016
Land	$1,600	$1,600
Buildings	10,828	11,972
Leasehold improvements	22,657	18,590
Furniture, fixtures and equipment	20,095	14,964
Premises and fixed assets, gross	$55,180	$47,126
Less: accumulated depreciation and amortization	(30,854)	(28,721)
Premises and fixed assets, net	$24,326	$18,405
Premises held for sale[1]	$-	$1,379

[1] At December 31, 2016 the Company had executed a contract of sale on real estate with a net book value of $1,379.

Depreciation and amortization expense amounted to approximately $3,310, $2,223 and $2,604 during the years ended December 31, 2017, 2016 and 2015, respectively.

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, 2016, the Company completed the sale of premises held for sale with an aggregate recorded balance of $8,799 at December 31, 2015. Proceeds from the sale were $75,899, and a gain of $68,183 was recognized on the sale. There were no sales of premises and fixed assets during the year ended December 31, 2015.

9. FHLBNY CAPITAL STOCK

The Bank is a Savings Bank Member of the FHLBNY. Membership requires the purchase of shares of FHLBNY capital stock at $100 per share. The Bank owned 596,959 shares and 444,439 shares at December 31, 2017 and 2016, respectively. The Bank recorded dividend income on the FHLBNY capital stock of $2,555, $2,501 and $2,226 during the years ended December 31, 2017, 2016 and 2015, respectively.

10. DUE TO DEPOSITORS

Deposits are summarized as follows:

	At December 31, 2017		At December 31, 2016	
	Effective Cost	Liability	Effective Cost	Liability
Savings accounts	0.07 %	$362,092	0.05 %	$366,921
Certificates of deposit ("CDs")	1.47	1,091,887	1.47	1,048,465
Money market accounts	0.96	2,517,439	0.86	2,576,081
Interest bearing checking accounts	0.08	124,283	0.08	106,525
Non-interest bearing checking accounts	-	307,746		