LAWNDALE CAPITAL MANAGEMENT LLC
Form 3
November 24, 2009

FORM 3

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

OMB APPROVAL	
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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â LAWNDALE CAPITAL MANAGEMENT LLC
(Last) (First) (Middle)
591 REDWOOD HIGHWAY,Â
(Street)
MILL VALLEY,Â CAÂ 94941
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
03/25/2009

3. Issuer Name **and** Ticker or Trading Symbol
MACE SECURITY INTERNATIONAL INC [MACE]

4. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	1,638,382	I	See Footnotes 1, 2 and 3 (1) (2) (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
		Title			

Date Exercisable	Expiration Date	Amount or Number of Shares	or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LAWNDALE CAPITAL MANAGEMENT LLC 591 REDWOOD HIGHWAY MILL VALLEY,Â CAÂ 94941	Â	Â X	Â	Â
SHAPIRO ANDREW E 591 REDWOOD HIGHWAY SUITE 2345 MILL VALLEY,Â CAÂ 94941	Â	Â X	Â	Â

Signatures

Lawndale Capital Management, LLC by Andrew E. Shapiro, Manager	11/24/2009
**Signature of Reporting Person	Date
Andrew E. Shapiro	11/24/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) As General Partner of and Investment Adviser to Limited Partnerships and as Manager of the General Partner and Investment Adviser.

(2) The reporting persons disclaim membership in a group with any other person within the meaning of Rule 13d-5(b)(i) and Rule 16a-1(a)(1) under the Exchange Act.

(3) These securities are owned by investment limited partnerships, of which Lawndale Capital Management, LLC ("LCM") is the general partner and investment adviser. Mr. Shapiro is the Manager of LCM. Each reporting person has only a pro rata interest in the securities with respect to which indirect beneficial ownership is reported and disclaims beneficial ownership in such securities except to the extent of such reporting person's pecuniary interest.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. STYLE="text-align: left">Net charge-offs to average outstanding loans during the period 0.00 0.03 2.37 0.37 0.67 Non-performing loans as a percent of total loans 1.02 1.26 1.17 5.72 5.87 Other Data: Number of: Real estate loans outstanding 575 495 457 449 468 Deposit accounts 11,073 11,304 12,028 12,170 13,042 Offices (4) 13 13 13 10 9

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(2) Represents net interest income as a percent of average interest-earning assets.

(3) Represents noninterest expense divided by the sum of net interest income and noninterest income.

(4) At December 31, 2014, includes our main office, a main office annex, our eight other full-service branch office, our future First Avenue, New York office, our two loan production offices, our investment advisory service office in Westport, Connecticut.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are prepayment penalties on multi-family, mixed-use and non-residential real estate loans and service charges – mostly from service charges on deposit accounts – and fees for various services.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The non-interest expenses we incur in operating our business consist of salary and employee benefits expenses, occupancy and equipment expenses, advertising expenses, federal insurance premiums and other miscellaneous expenses.

Salary and employee benefits consist primarily of the salaries and wages paid to our employees, payroll taxes and expenses for health insurance, retirement plans and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, ATM and data processing expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or term of the lease.

Advertising expenses include expenses for print, promotions, third-party marketing services and premium items. Federal insurance premiums are payments we make to the FDIC for insurance of our deposit accounts. Real estate owned expenses include expenses for real estate taxes, water and sewer charges, and maintenance of the property.

Other expenses include expenses for professional services, office supplies, postage, telephone, insurance, charitable contributions, regulatory assessments and other miscellaneous operating expenses.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses as a critical accounting policy.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the NYDFS and FDIC, as an integral part of their examination process, periodically reviews our allowance for loan losses. The NYDFS and FDIC could require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see notes 1 and 6 of the notes to the consolidated financial statements included elsewhere in this filing.

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Balance Sheet Analysis

Overview. Total assets at December 31, 2014 increased by $57.2 million, or 12.5%, to $515.4 million from total assets of $458.2 million at December 31, 2013. The increase was primarily due to increases of $55.6 million in loans receivable, net, $4.7 million in real estate owned, $2.5 million in cash and cash equivalents, $623,000 in bank owned life insurance, $339,000 in restricted stock, and $186,000 in accrued interest receivable, offset by decreases of $2.3 million in other assets, $2.0 million in certificates of deposits at other financial institutions, $1.8 million in investment securities held-to-maturity, $516,000 in premises and equipment, $73,000 in investment securities available-for-sale, and $61,000 in intangible assets.

The increase in total assets was funded by increases of $48.8 million in deposits, $9.0 million in FHLB advances, and $364,000 in accounts payable and accrued expenses, offset by decreases of $649,000 in advance payments by borrowers for taxes and insurance. As of December 31, 2014, the Company had stockholders equity of $103.8 million, or 20.1% of assets on a consolidated basis.

In 2010, we proactively reduced mortgage origination levels for mixed-use and non-residential real estate loans, based on our unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment. During the second half of 2011 and into 2014, we began increasing our origination of loans secured by real-estate. In 2012, we commenced the origination of construction loans secured by multi-family and non-residential properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate real estate loans secured by multi-family residential real estate, mixed-use real estate and non-residential real estate. To a much lesser extent, we originate commercial and industrial and consumer loans. At December 31, 2014, loans receivable, net, totaled $423.4 million, an increase of $55.6 million, or 15.1%, from total loans receivable, net, of $367.8 million at December 31, 2013.

The largest segment of our real estate loans is multi-family residential loans. As of December 31, 2014, these loans totaled $188.0 million, or 44.1% of our total loan portfolio, compared to $188.9 million, or 50.9% of our total loan portfolio at December 31, 2013. As of December 31, 2014, mixed-use loans totaled $61.5 million, or 14.4% of our total loan portfolio, compared to $50.5 million, or 13.6% of our total loan portfolio at December 31, 2013. Non-residential real estate loans totaled $82.6 million, or 19.4% of our total loan portfolio at December 31, 2014, compared to $82.0 million, or 22.1% of our total loan portfolio at December 31, 2013. At December 31, 2014 and 2013, one- to four-family residential real estate loans totaled $13.3 million and $11.8 million, or 3.1% and 3.2% of our total loan portfolio, respectively.

Our originated construction loan portfolio totaled $46.6 million, net of loans in process of $41.5 million, or 10.9% of our loan portfolio at December 31, 2014, compared to $6.6 million, net of loans in process of $10.6 million, or 1.8% of our loan portfolio at December 31, 2013. The increase in construction loans was due to our expansion in the Massachusetts construction market through the origination of construction loans secured by multi-family and single family properties. In addition, in the latter part of 2013 we entered the New York construction market through the origination of construction loans secured by multi-family and residential condominium properties located in New York State. The Bank also hired additional construction lending personnel in the New York construction market and opened a Rockland County, New York loan production office.

Our construction loan portfolio consisted of five Massachusetts construction loans with an aggregate balance of $1.6 million, net of loans in process of $968,000, and 64 New York construction loans with an aggregate balance of $45.0 million, net of loans in process of $40.5 million. All 69 construction loans were performing according to their terms at December 31, 2014. The average balance of loans in our construction loan portfolio was $675,000 at December 31, 2014.

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The largest construction project consisted of three loans totaling $7.0 million that had an aggregate outstanding balance of $2.7 million, net of loans in process of $4.4 million, and were performing according to their terms at December 31, 2014. The three loans are secured by the underlying real estate and improvements under construction, which are comprised of four apartment buildings containing 70 units located in Middletown, New York.

The largest outstanding construction loan had a balance of $3.0 million, net of loans in process of $293,000, and was performing according to its terms at December 31, 2014. This loan is secured by the underlying real estate and improvements under construction, which are comprised of three buildings containing 11 condominium units located in Spring Valley, New York.

The largest outstanding construction loan relationship with one borrower was comprised of ten loans totaling $13.1 million, with an outstanding balance of $8.8 million, net of loans in process of $4.3 million, and were performing according to their terms at December 31, 2014.

At December 31, 2014, our commercial and industrial loan portfolio totaled $61.2 million in committed loans, with $34.4 million drawn against such commitments, compared to $51.6 million in committed loans, with $31.3 million drawn against such commitments at December 31, 2013.

We also originate several types of consumer loans consisting of personal consumer loans, loans secured by savings accounts or certificates of deposit (share loans), and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. Consumer loans totaled $142,000 and represented 0.03% of total loans at December 31, 2014 compared to $161,000, or 0.04% of total loans at December 31, 2013.

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The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31,							
	2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real estate:								
Residential Real Estate:								
One- to four-family	$13,314	3.12 %	$11,752	3.17 %	$7,761	2.30 %	$627	0.18 %
Multi-family(1)	188,017	44.07	188,923	50.89	178,644	52.88	189,253	52.93
Mixed-use(1)	61,546	14.43	50,467	13.60	41,895	12.40	51,229	14.33
Total residential real estate loans	262,877	61.62	251,142	67.66	228,300	67.58	241,109	67.44
Non-residential real estate (1)	82,622	19.37	81,985	22.09	82,312	24.37	83,602	23.38
Total real estate	345,499	80.99	333,127	89.75	310,612	91.95	324,711	90.82
Construction (2)	46,607	10.92	6,568	1.77	841	0.25	9,065	2.54
Commercial and industrial	34,407	8.06	31,345	8.44	26,274	7.78	23,725	6.64
Consumer:								
Overdraft lines of credit	34	0.01	32	0.01	34	0.01	44	0.01
Passbook	4	—	11	—	28	0.01	24	0.01
Consumer	104	0.02	118	0.03	15	—	—	—
Total consumer	142	0.03	161	0.04	77	0.02	68	0.02
Total loans	426,655	100.00%	371,201	100.00%	337,804	100.00%	357,569	100.00%
Net deferred loan costs	606		639		629		722	
Allowance for losses	(3,816)		(4,015)		(4,646)		(7,397)	
Loans, net	$423,445		$367,825		$333,787		$350,894	

(1) Includes equity lines of credit that we originate on properties on which we hold the first mortgage.

(2) Includes $1,457 in loan participations originated by the Bank which are held by the Company at December 31, 2014.

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The following table sets forth certain information at December 31, 2014 regarding the dollar amount of loans repricing or maturing during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated maturity are reported as due in one year or less.

	At December 31, 2014					
	Residential Real Estate	Non-Residential Real Estate	Commercial and Industrial	Construction	Consumer and other	Total
	(In thousands)					
One year or less	$18,519	$ 22,172	$ 26,747	$ 46,607	$ 38	$114,083
More than one year to five years	221,338	53,200	2,769	—	9	277,316
More than five years	23,020	7,250	4,891	—	95	35,256
Total	$262,877	$ 82,622	$ 34,407	$ 46,607	$ 142	$426,655

The following table sets forth the dollar amount of all loans at December 31, 2014 that are due after December 31, 2015 and have either fixed or adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total
	(In thousands)		
Residential real estate:			
One- to four-family	$1,863	$ 11,422	$13,285
Multi-family	11,394	159,665	171,059
Mixed-use	2,641	57,373	60,014
Non-residential real estate	2,951	57,499	60,450
Construction	—	—	—
Commercial and industrial	7,660	—	7,660
Consumer	104	—	104
Total	$26,613	$ 285,959	$312,572

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The following table shows loan origination, purchase and sale activity during the periods indicated.

	2014	2013	2012	2011	2010
	(In thousands)				
Total loans at beginning of period	$371,201	$337,804	$357,569	$371,538	$391,947
Loans originated:					
Residential real estate:					
One- to four-family	3,002	3,235	9,385	450	—
Multi-family	40,912	44,510	30,745	34,505	5,210
Mixed-use	21,272	14,947	5,863	1,550	—
Non-residential real estate	18,068	9,935	14,597	7,043	420
Construction	76,176	12,904	5,996	—	—
Commercial and industrial	7,901	4,950	5,701	8,728	2,558
Consumer	—	112	16	—	—
Total loans originated	167,331	90,593	72,303	52,276	8,188
Construction loan participation purchased	—	—	—	—	—
Deduct:					
Loan principal repayments	111,096	57,091	83,579	62,527	25,979
Charge offs	781	105	8,489	1,375	2,618
Total deductions	111,877	57,196	92,068	63,902	28,597
Other increases (decreases), net	—	—	—	(2,343)	—
Total loans at end of period	$426,655	$371,201	$337,804	$357,569	$371,538

Securities. Our securities portfolio consists primarily of residential mortgage-backed securities, FHLB of New York restricted stock, and ACBB restricted stock. Securities decreased by $1.6 million, or 15.6%, from $10.2 million at December 31, 2013, to $8.6 million at December 31, 2014. The decrease was primarily due to maturities and repayments of $2.0 million, partially offset by an increase in FHLB restricted stock of $269,000, or 16.9%, to $1.9 million at December 31, 2014 from $1.6 million at December 31, 2013 and the purchase of $70,000 in ACBB restricted stock during 2014. The increase in FHLB stock was due to increases in mortgage-related assets and borrowings from the FHLB, which increased the required amount of FHLB stock. The purchase of ACBB stock was due to the addition of ACBB as one of the Company’s correspondent banks. At December 31, 2014 and December 31, 2013, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our consolidated equity.

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated.

	At December 31,					
	2014		2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					

Securities available for sale:						
Mortgage-backed securities - residential	$39	$40	$110	$113	$125	$129
Securities held to maturity:						
Mortgage-backed securities - residential	$6,595	$6,805	$8,444	$8,739	$11,987	$12,561

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The following table sets forth the stated final maturities and weighted average yields of debt securities at December 31, 2014. Certain mortgage-backed securities have adjustable interest rates and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below. At December 31, 2014, mortgage-backed securities with adjustable rates totaled $5.4 million.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$—	—%	$—	— %	$6	1.95 %	$33	2.21 %	$39	2.17 %
Securities held to maturity:										
Mortgage-backed securities	$—	—%	$67	2.38 %	$156	2.08 %	$6,372	3.47 %	$6,595	3.43 %

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Deposits. Our primary source of funds is retail deposit accounts which are comprised of savings accounts, demand deposits and certificates of deposit held primarily by individuals and businesses within our primary market area and non-broker certificates of deposit gathered through a nationwide certificate of deposit listing service. The non-broker certificates of deposits were accepted from banks, credit unions, non-profit organizations and certain corporations in amounts greater than $75,000 and less than $250,000. Although we curtailed the use of the certificate of deposit listing services in 2010, we resumed the use of these services in 2011 by obtaining $10.0 million in non-broker certificates of deposits. In an effort to reduce reliance on these higher cost funds, the Company allowed these non-broker certificates of deposits to mature without renewal in 2012.

We resumed the use of these services in December 2013 through 2014 by obtaining $9.4 million in 2013 and $32.7 million in 2014 in these non-broker certificates of deposits due to a need to increase liquidity to fund loan originations and to diversify the sources of funds. We had maturity and redemption of $746,000 in 2013 and $3.2 million in 2014 in these non-broker certificates of deposits. As a result, these non-broker certificates of deposits have increased to $38.9 million, or 10.4% of total deposits at December 31, 2014 compared to $9.4 million, or 2.9% of total deposits at December 31, 2013.

Deposits increased by $48.8 million, or 15.0%, in the year ended December 31, 2014. The increase in deposits was primarily attributable to efforts by the Company to increase liquidity to fund loan originations and to increase reliance on long term certificates of deposits, business customer-related short term rate sensitive NOW and money market deposits, and business customer-related noninterest bearing demand deposits. This resulted in increases of $29.8 million in certificates of deposits, $12.5 million in NOW and money market deposit accounts, and $8.8 million in non-interest bearing demand deposits, offset by a decrease of $2.2 million in savings accounts.

The following table sets forth the balances of our deposit products at the dates indicated.

	At December 31,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
NOW and money market deposit accounts	$72,797	19.46 %	$60,334	18.55 %	$62,868	19.80 %
Savings accounts	82,976	22.18	85,156	26.19	84,404	26.50
Non-interest bearing demand deposits	37,088	9.91	28,310	8.70	22,932	7.20
Certificates of deposit	181,191	48.45	151,409	46.56	147,916	46.50
Total	$374,052	100.00%	$325,209	100.00%	$318,120	100.00%

The Company had $986,000 at December 31, 2014 and $980,000 at December 31, 2013 in Certificate of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits that were fully-insured brokered deposits as defined in the FDIC call report instructions. The CDARS certificates of deposits were obtained from one retail depositor and then transferred into the CDARS Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Networks as reciprocal deposits.

The following table indicates the amount of certificates of deposit with balances over $100,000 by time remaining until maturity as of December 31, 2014. We do not solicit jumbo certificates of deposit nor do we offer special rates for jumbo certificates. The minimum deposit to open a certificate of deposit ranges from $500 to $2,500.

Maturity Period	Certificates of Deposit (In thousands)
Three months or less	$ 5,111
Over three through six months	6,842
Over six through twelve months	21,651
Over twelve months	87,744
Total	$ 121,348

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Borrowings. We may utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments and to meet deposit withdrawal requirements. Advances from the FHLB increased to $30.0 million as of December 31, 2014 from $21.0 million as of December 31, 2013.

The contractual maturities of FHLB advances at December 31, 2014 are as follows:

	Amount	Weighted Average Interest Rate	
Advances maturing in:			
One year or less	$27,000	0.37	%
After one to two years	3,000	1.03	
	$30,000	0.44	%

Stockholders' Equity. Stockholders' equity decreased by $358,000, or 0.3%, to $103.8 million at December 31, 2014 from $104.2 million at December 31, 2013. The decrease was primarily due to stock repurchases of $1.7 million and cash dividends declared of $577,000, partially offset by comprehensive net income of $1.7 million and $184,000 for ESOP shares earned for the period.

On December 16, 2014, Northeast Community Bancorp, MHC, the Company's majority stockholder, received notice from the Federal Reserve Board that it did not object to the waiver of dividends paid by the Company in the twelve months following MHC member approval of the dividend waiver, which occurred on November 25, 2014. *See "Risk Factors—The amount of dividends we pay on our common stock, if any, may be limited by the ability of NorthEast Community Bancorp, MHC to waive receipt of dividends."*

Results of Operations for the Years Ended December 31, 2014 and 2013

Overview.

	2014		2013		% Change	
	(Dollars in thousands)					
Net income	$1,697		$1,137		49.25	%
Return on average assets	0.35	%	0.26	%	34.62	
Return on average equity	1.64	%	1.08	%	51.85	
Average equity to average assets	21.52	%	24.07	%	(10.59	)

Net income for the year ended December 31, 2014 increased by $560,000, or 49.3%, to $1.7 million from $1.1 million in 2013. The increase was primarily the result of an increase in net interest income and a decrease in non-interest expense, offset by decreases in the credit for loan losses and non-interest income and an increase in income taxes.

Net Interest Income. Net interest income increased by $1.1 million, or 7.4%, to $16.5 million for the year ended December 31, 2014 from $15.4 million for the year ended December 31, 2013. The increase in net interest income resulted from an increase of $1.4 million in interest income that exceeded an increase of $252,000 in interest expense.

The increase in interest income was due to increases in the average balance of our interest earning assets, offset a decrease in the yield of our interest earning assets. The increase in the average balance of our interest earning assets was primarily in loans receivable, offset by decreases in securities and other interest-earning assets. In this regard, the average balance of our interest earning assets increased by $46.4 million, or 11.9%, to $436.5 million for the year ended December 31, 2014 from $390.1 million for the year ended December 31, 2013.

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The net interest spread decreased by 13 basis points to 3.56% for the ended December 31, 2014 from 3.69% for the year ended December 31, 2013. The net interest margin decreased by 16 basis points to 3.78% for the year ended December 31, 2014 from 3.94% for the year ended December 31, 2013. The decrease in the net interest rate spread and the net interest margin in 2014 compared to 2013 was due to a decrease in the yield on our interest-earning assets, offset by a decrease in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets decreased by 19 basis points to 4.57% for the year ended December 31, 2014 from 4.76% for the year ended December 31, 2013 and the cost of our interest-bearing liabilities decreased by six basis points to 1.01% for the year ended December 31, 2014 from 1.07% for the year ended December 31, 2013. The decrease in the yield on our interest earning assets was due to a decrease in the yield on loans receivable, offset by an increase in the yield on securities and other interest-earning assets. The decrease in the cost of our interest-bearing liabilities was due to a decrease in the cost of borrowed money, offset by an increase in the cost of interest-bearing deposits.

Total interest income increased by $1.4 million, or 7.5%, to $20.0 million for the year ended December 31, 2014 from $18.6 million for the year ended December 31, 2013. Interest income on loans increased by $1.4 million, or 7.8%, to $19.6 million for 2014 from $18.2 million for 2013 as a result of an increase in the average balance of loans receivable, offset by a decrease of 31 basis points in the average yield on loans to 4.95% for 2014 from 5.26% for 2013. The average balance of loans receivable increased by $50.5 million, or 14.6%, to $397.0 million at December 31, 2014 from $346.4 million at December 31, 2013. The increase in the average balance of our loans receivable was due to loan originations totaling $167.3 million for 2014 that exceeded loan repayments and charge-offs totaling $111.9 million. The decrease in the yield of our loans receivable was due to the pay-off of higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of mortgage loans in our loan portfolio.

Interest income on securities decreased by $47,000, or 14.3%, to $282,000 for 2014 from $329,000 for 2013 as a result of a decrease in the average balance of securities, offset by an increase of 13 basis points in the average yield on securities to 3.04% for 2014 from 2.91% for 2013. The average balance of securities decreased by $2.0 million, or 17.9%, to $9.3 million at December 31, 2014 from $11.3 million at December 31, 2013. The decrease in the average balance on our securities was due to the principal repayments on investment securities, offset by an increase in restricted stock. The increase in the yield on our securities was due to dividends from FHLB of New York stock that yielded approximately 4.0% during 2014 and an increase of FHLB of New York stock as a percentage of total investment securities.

Interest income on other interest-earning assets increased by $17,000, or 130.8%, to $30,000 for 2014 from $13,000 for 2013 as a result of an increase of six basis points in the average yield on other interest-earning assets to 0.10% for 2014 from 0.04% for 2013, offset by a decrease in the average balance of other interest-earning assets. The increase in the yield was due to the placement of other interest-earning assets in one of our corresponding banks to generate higher yield. The average balance of other interest-earning assets decreased by $2.1 million, or 6.4%, to $30.3 million at December 31, 2014 from $32.4 million at December 31, 2013. The decrease in the average balance of other interest-earning assets was due to decreases in the average balance of cash equivalents to fund loan originations.

Total interest expense increased by $252,000, or 7.9%, to $3.4 million for the year ended December 31, 2014 from $3.2 million for the year ended December 31, 2013. Interest expense on deposits increased by $336,000, or 11.4%, to $3.3 million for the year ended December 31, 2014 from $3.0 million for the year ended December 31, 2013. During this same period, the average interest cost of deposits increased by two basis points to 1.03% for the year ended December 31, 2014 from 1.01% for the year ended December 31, 2013.

The increase in interest expense on deposits was due to an increase of $28.2 million, or 9.6%, in the average balance of interest-bearing deposits to $320.7 million for the year ended December 31, 2014 from $292.5 million for the year ended December 31, 2013. The increase in the average balance of interest-bearing deposits was due to increases in the average balance of our interest-bearing demand deposits, interest-bearing savings and club accounts, and interest-bearing certificates of deposits. The increase in the average balances of our interest-bearing demand deposits and interest-bearing savings and club accounts was due to the offering of competitive interest rates to generate deposits. The increase in the average balance of our interest-bearing certificates of deposits due to the acquisition of competitively priced interest-bearing certificates of deposit through a non-broker nationwide certificate of deposit listing service.

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The interest expense of our interest-bearing demand deposits increased by $32,000, or 14.6%, to $251,000 for the year ended December 31, 2014 from $219,000 for the year ended December 31, 2013. The increase in interest expense in our interest-bearing demand deposits was due to an increase of $3.2 million, or 5.2%, in the average balance of our interest-bearing demand deposits to $65.4 million for the year ended December 31, 2014 from $62.2 million for the year ended December 31, 2013. The increase in interest expense on our interest-bearing demand deposits was also due to a three basis point increase in the average interest cost to 0.38% for the year ended December 31, 2014 from 0.35% for the year ended December 31, 2013 as we continued to offer competitive interest rates to generate deposits.

The interest expense of our interest-bearing savings and club deposits increased by $24,000, or 5.4%, to $469,000 for the year ended December 31, 2014 from $445,000 for the year ended December 31, 2013. The increase in interest expense in our interest-bearing savings and club deposits was due to an increase of $2.1 million, or 2.5%, in the average balance of our interest-bearing savings and club deposits to $85.1 million for the year ended December 31, 2014 from $83.0 million for the year ended December 31, 2013. The increase in interest expense on our interest-bearing savings and club deposits was also due to a one basis point increase in the average interest cost to 0.55% for the year ended December 31, 2014 from 0.54% for the year ended December 31, 2013 as we continued to offer competitive interest rates to generate deposits.

The interest expense of our interest-bearing certificates of deposit increased by $280,000, or 12.2%, to $2.6 million for the year ended December 31, 2014 from $2.3 million for the year ended December 31, 2013. The increase in interest expense in our interest-bearing certificates of deposit was due to an increase of $22.9 million, or 15.5%, in the average balance of our interest-bearing certificates of deposit to $170.2 million for the year ended December 31, 2014 from $147.3 million for the year ended December 31, 2013. The increase in our interest-bearing certificates of deposit was due to management’s decision to continue offering competitive interest rates to generate deposits through a non-broker nationwide certificate of deposit listing service. The increase in interest expense of our interest-bearing certificates of deposit was offset by a four basis decrease in the average interest cost on such certificates to 1.51% for the year ended December 31, 2014 from 1.55% for the year ended December 31, 2013. The decrease in the average interest cost of our interest-bearing certificates of deposit was due to the re-pricing of maturing certificates of deposit and the acquisition of competitively priced interest-bearing certificates of deposit through a non-broker nationwide certificate of deposit listing service.

Interest expense on borrowings decreased by $84,000, or 34.9%, to $157,000 for the year ended December 31, 2014 from $241,000 for the year ended December 31, 2013. The decrease in interest expense on borrowings was due to a decrease of 271 basis points in the cost of borrowed money to 0.72% for the year ended December 31, 2014 from 3.43% for the year ended December 31, 2013 due primarily to the maturity and repayment of higher costing FHLB advances from 2013 to 2014 and the origination of new lower costing FHLB advances in the latter part of 2013 and continuing into 2014. The decrease in interest expense on borrowings was partially offset by an increase of $14.9 million, or 212.1%, in the average balance of borrowed money to $21.9 million for the year ended December 31, 2014 from $7.0 million for the year ended December 31, 2013.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using average daily balances. Average loan balances include nonaccrual loans. Loan fees are included in interest income on loans. Interest income on loans and investment securities has not been calculated on a tax equivalent basis because the impact would be insignificant.

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	Year Ended December 31, 2014 Average Balance	Interest and Dividends	Yield/ Cost	2013 Average Balance	Interest and Dividends	Yield/ Cost	2012 Average Balance
	(Dollars in Thousands)						
Assets:							
Interest-earning assets:							
Loans	$396,950	$19,636	4.95%	$346,449	$18,210	5.26%	$352,912
Securities	9,283	282	3.04	11,305	329	2.91	15,704
Other interest-earning assets	30,315	30	0.10	32,394	13	0.04	64,399
Total interest-earning assets	436,548	19,948	4.57	390,148	18,552	4.76	433,015
Allowance for loan losses	(4,065)			(4,305)			(5,785
Noninterest-earning assets	49,166			49,535			41,740
Total assets	$481,649			$435,378			$468,970
Liabilities and equity:							
Interest-bearing liabilities:							
Interest-bearing demand	$65,421	$251	0.38%	$62,181	$219	0.35%	$92,110
Savings and club accounts	85,061	469	0.55	82,976	445	0.54	87,505
Certificates of deposit	170,172	2,567	1.51	147,307	2,287	1.55	138,895
Total interest-bearing deposits	320,654	3,287	1.03	292,464	2,951	1.01	318,510
Borrowings	21,949	157	0.72	7,033	241	3.43	15,971
Total interest-bearing liabilities	342,603	3,444	1.01	299,497	3,192	1.07	334,481
Noninterest-bearing demand	27,213			23,234			19,715
Other liabilities	8,204			7,834			7,814
Total liabilities	378,020			330,565			362,010
Stockholders’ equity	103,629			104,813			106,960
Total liabilities and stockholders' equity	$481,649			$435,378			$468,970
Net interest income		$16,504			$15,360		
Interest rate spread			3.56%			3.69%	
Net interest margin			3.78%			3.94%	
Net interest-earning assets	$93,945			$90,651			$98,534
Interest-earning assets to interest-bearing liabilities	127.42 %			130.27 %			129.46

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

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	2014 Compared to 2013 Increase (Decrease) Due to			2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest and dividend income:						
Loans receivable	$2,543	$(1,117)	$1,426	$(353)	$(947)	$(1,300)
Investment securities	(61)	14	(47)	(129)	(26)	(155)
Other interest-earning assets	(1)	18	17	(14)	(7)	(21)
Total interest-earning assets	2,481	(1,085)	1,396	(496)	(980)	(1,476)
Interest expense:						
Interest-bearing demand deposits	12	20	32	(134)	(144)	(278)
Savings accounts	11	13	24	(28)	(85)	(113)
Certificates of deposit	346	(65)	280	131	5	136
Borrowings	217	(302)	(84)	(308)	(8)	(316)
Total interest-bearing liabilities	586	(334)	252	(339)	(232)	(571)
Net change in interest income	$1,895	$(751)	$1,144	$(157)	$(748)	$(905)

Provision for Loan Losses. We recorded a reduction to the allowance for loan losses of $208,000 and $554,000 during the years ended December 31, 2014 and 2013, respectively. During 2014, we charged-off $781,000 against four non-performing multi-family mortgage loans, one mixed-use mortgage loan, and one non-residential mortgage loan. During 2013, we charged-off $105,000 against two non-performing non-residential mortgage loans to reduce the aggregate carry value to $2.8 million as of December 31, 2013. The primary reason for the decreased provision during 2014 and 2013 was an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions and a decrease in our borrowers requesting assistance through modification of loan terms.

The reduction in the allowance for loan losses in 2014 was also due to the Company's decision to revise the methodology used to calculate the historical loss factor. The Company revised the historical loss look back period from three to two years as a result of the Company's determination that the Company's historical loss charge-offs from 2009 to 2012 was a result of the recent economic recession, that the bulk of the loss charge-offs from 2009 to 2012 occurred in 2012, that there has not been a significant amount of loss charge-offs during the past two years, and that the Company's loan portfolio has weathered the recession with no further anticipated significant loss charge-offs. The Company's allowance for loan losses at December 31, 2014 would have been $274,000 larger and the provision (credit) for loan losses recognized for the year ended December 31, 2014 would have been $274,000 lower resulting in a provision for loan losses of $66,000 without the change in the methodology.

We recorded recoveries of $790,000 and $28,000 during the years ended December 31, 2014 and December 31, 2013, respectively.

The Company's director of special assets continues to monitor our loan portfolio and reviews at least quarterly and, more frequently, if necessary all non-performing loans, potential non-performing loans, and restructured loans. An analysis of the changes in the allowance for loan losses is presented under *"Risk Management – Analysis and Determination of the Allowance for Loan Losses."*

Non-interest Income. The following table shows the components of noninterest income for the years ended December 31, 2014 and 2013.

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	2014	2013	% Change 2014/2013
	(Dollars in thousands)		
Other loan fees and service charges	$463	$601	(23.0)%
Loss on dispositions of equipment	—	(1)	(100.0)
Earnings on bank owned life insurance	623	638	(2.4)
Investment advisory fees	779	729	6.9
Other	24	22	9.1
Total	$1,889	$1,989	(5.0)%

The decrease in non-interest income was primarily due to decreases of $138,000 in other loan fees and service charges and $15,000 in earnings on bank owned life insurance, offset by increases of $50,000 in investment advisory fee income and $2,000 in other non-interest income.

The decrease in other loan fees and service charges was due to decreases of $64,000 in mortgage broker fee income, $42,000 in commercial and industrial loan fee income, $13,000 in ATM fees, $11,000 in late charges for loan payments, and $6,000 in loan modification fees. The decrease in mortgage broker fee income was due to the elimination of the 1-4 family residential mortgage loan brokerage department and the termination of the related staff in January 2013. The increase in investment advisory fee income was due to an increase in assets under management.

Non-interest Expense. The following table shows the components of non-interest expense and the percentage changes for the years ended December 31, 2014 and 2013.

	Year Ended December 31, 2014	2013	% Change 2014/2013
	(Dollars in thousands)		
Salaries and employee benefits	$ 8,658	$ 8,224	5.3 %
Net occupancy expense of premises	1,381	1,469	(6.0)
Equipment	526	637	(17.4)
Outside data processing	1,109	1,046	6.0
Advertising	42	59	(28.8)
Impairment loss on goodwill	—	334	(100.0)
REO expenses	486	425	14.4
FDIC insurance premiums	430	392	9.7
Other operating expenses:			
Service contracts	457	402	13.7
Insurance	232	222	4.5
Audit and accounting	544	440	23.6
Directors compensation	403	461	(12.6)
Telephone	477	392	21.7
Office supplies and stationary	66	77	(14.3)

Director, officer, and employee expenses	262	332	(21.1)
Legal fees	375	630	(40.5)
Other	669	824	(18.8)
Total non-interest expenses	$ 16,117	$ 16,366	(1.5)

Non-interest expense decreased by $249,000, or 1.5%, to $16.1 million for the year ended December 31, 2014 from $16.4 million for the year ended December 31, 2013. The decrease resulted primarily from decreases of $334,000 in impairment loss on goodwill, $295,000 in other operating expense, $111,000 in equipment expense, $88,000 in occupancy expense, and $17,000 in advertising expense, partially offset by increases of $434,000 in salaries and employee benefits, $63,000 in outside data processing expense, $61,000 in real estate owned expense, and $38,000 in FDIC insurance expense.

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There was no goodwill impairment expense in 2014 compared to a goodwill impairment expense of $334,000 in 2013. During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment of $227,000 previously recorded in 2012 was necessary. As a result, an additional impairment charge of $334,000 was recognized in 2013. The goodwill was recorded in connection with the Hayden Financial Group acquisition in 2007. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Other non-interest expense decreased by $295,000, or 7.8%, to $3.5 million in 2014 from $3.8 million in 2013 due mainly to decreases of $255,000 in legal fees, $148,000 in consulting services, $70,000 in directors, officers and employee expenses, $58,000 in directors compensation, $38,000 in miscellaneous other non-interest expense, and $11,000 in office supplies, partially offset by increases of $104,000 in audit and accounting fees, $85,000 in telephone expenses, $55,000 in service contracts expenses, $32,000 in recruitment expenses related to the hiring of additional personnel, and $10,000 in insurance expenses.

Equipment expense decreased by $111,000, or 17.4%, to $526,000 in 2014 from $637,000 in 2013 due to decreases in the purchases of additional equipment and continued efforts to contain expenses. Advertising expense decreased by $17,000, or 28.8%, to $42,000 in 2014 from $59,000 in 2013 due to efforts to contain certain marketing costs.

Salaries and employee benefits, which represented 53.7% of the Company’s non-interest expense for the year ended December 31, 2014, increased by $434,000, or 5.3%, to $8.6 million in 2014 from $8.2 million in 2013. The increase was due to the staffing of the Rockland County, New York loan production office that opened in January 2014, offset by a reduction in the number of full time equivalent employees to 94 at December 31, 2014 from 102 at December 31, 2013. The decrease in full time equivalent employees was due to the Company’s efforts to control cost by reducing staff in various departments, including branch operations, lending operations, headquarters support personnel, and the wealth management department.

Outside data processing expense increased by $63,000, or 6.0%, to $1.1 million for the year ended December 31, 2014 from $1.0 million for the year ended December 31, 2013 due primarily to additional services provided in 2014 by the Company’s core data processing vendor as a result of the expansion of the Company’s facilities and services.

Real estate owned expenses increased by $61,000, or 14.4%, to $486,000 for the year ended December 31, 2014 from $425,000 for the year ended December 31, 2013 due to operating expenses related to five foreclosed properties in 2014 compared to two foreclosed properties in 2013. FDIC insurance expense increased by $38,000, or 9.7%, to $430,000 in 2014 from $392,000 in 2013 due to increases in the Company’s assessment base, partially offset by a decrease in the quarterly assessment multiplier from 2013 to 2014.

Provision for Income Taxes. Income taxes increased by $387,000, or 96.8%, to an expense of $787,000 for the year ended December 31, 2014 compared to an expense of $400,000 for the year ended December 31, 2013. The increase resulted primarily from a $947,000 increase in pre-tax income in 2014 compared to 2013. The effective tax rate was an expense of 31.7% for the year ended December 31, 2014 compared to 26.0% for the year ended December 31, 2013. The increase in the effective tax rate between periods was due to a lower percentage of our pre-tax income being tax-exempt, specifically the earnings on bank-owned life insurance, in 2014 compared to 2013.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and operational risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Other risks that we face are market risk, liquidity risk and reputation risk. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities, that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

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Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. We underwrite each mortgage loan application on its merits, applying risk factors to ensure that each transaction is considered on an equitable basis.

When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the ten day grace period expires and the payment has not been received, a late payment notice is mailed and telephone contact is initiated. Throughout the rest of the month that payment is due, the borrower is called several times. If the payment has not been received by the end of the month, the borrower is informed that the loan will be placed in foreclosure within two weeks. On the 45^{th} day after payment is due, the loan is forwarded to the problem loan officer who will review the file and may authorize an acceleration letter. Once a foreclosure action has been instituted, a written agreement between the Bank and the debtor will be required to discontinue the foreclosure action. We may consider loan workout arrangements with certain borrowers under certain circumstances. If no satisfactory resolution to the delinquency is forthcoming, the note and mortgage may be sold prior to a foreclosure sale or the real property securing the loan would be sold at foreclosure.

Non-performing loans and potential non-performing loans have been reviewed on a regular basis by management's Special Assets Group ("SAG") since 2008. The Board authorized the SAG to address the increase in non-performing loans as a result of the economic and real estate collapse that began in 2008. The Board and Senior Management believe that individual attention for each troubled loan gives that loan the best opportunity of recovery or disposal at the least cost to the Company. The SAG was comprised of the chief executive officer, a director of special assets who is a loan workout specialist, and one facilities officer specializing in building management.

In mid-2013, the SAG was disbanded due to a decrease in the level of problem loans. The director of special assets is now charged with the mandate to identify problem and potential problem loans in conjunction with the internal loan review process, to evaluate the loan and determine the cause of the problem and whether there is a reasonable probability that the loan can be return to a performing status over a reasonable time frame, and to ascertain whether the borrower is willing and able to work with the Company in an effort to save the loan and their investment.

Once it is determined that the borrower is willing and able to cooperate in the effort, the director of special assets assumes responsibility for the loan and devises a plan to correct the deficiencies. The plan may take the form of a short term forbearance agreement, a moderate or longer term restructure agreement or an A/B note and mortgage split. With the cooperation of the borrower, the director of special assets will implement the plan and monitor its progress to assure as timely a resolution as possible.

We believe the best interests of the Company and the borrower are to work to keep a property viable and performing during difficult economic times, thereby helping to limit loan losses when there is a reasonable expectation that the property will be able to support the original debt once the current crisis has passed. A successful plan will ultimately return the loan to a performing status and the plan will terminate when the loan is reclassified as performing.

Should a workable plan not be possible, the director of special assets is charged with disposing of the loan as quickly and cost effectively as possible. This may be accomplished through foreclosure, a sale of the note and mortgage or a short sale. In connection with the above, the Company has entered into short-term restructuring agreements with various borrowers.

At December 31, 2014, the Bank had 12 restructured mortgage loans totaling $12.7 million, comprised of four multi-family mortgage loans totaling $3.3 million, one mixed-use loan totaling $877,000, and seven non-residential mortgage loans totaling $8.5 million. Except for one non-residential mortgage loan totaling $448,000 that is non-performing and nonaccrual, each of the remaining 11 restructured loans was performing under the terms of the restructured agreements at December 31, 2014. The restructured terms were generally consistent with market terms.

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At December 31, 2013, the Bank had 14 restructured mortgage loans totaling $16.8 million, comprised of five multi-family mortgage loans totaling $5.5 million, one mixed-use mortgage loan totaling $897,000, and eight non-residential mortgage loans totaling $10.4 million. Except for two non-residential mortgage loans totaling $1.3 million that are non-performing and nonaccrual, each of the remaining twelve restructured loans was performing under the terms of the restructured agreements at December 31, 2013. The restructured terms were generally consistent with market terms.

Management reports to the board of directors monthly regarding the amount of loans past-due more than 30 days.

Analysis of Non-performing and Classified Assets. We generally consider repossessed assets and loans that are 90 days or more past due to be non-performing assets. It is generally our policy to continue to accrue interest on past-due loans and loans in foreclosure as long as management determines that these loans are well secured and there is a reasonable expectation of collection. When a loan is placed on nonaccrual status, the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to interest only if collection of principal is reasonably assured.

Real estate that we acquire as a result of a foreclosure action or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at the lower of the unpaid principal balance of the loan or the fair value minus estimated cost to sell at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition of the property result in charges against income.

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The following table provides information with respect to our nonperforming assets at the dates indicated.

	At December 31,								
	2014		2013		2012		2011		20
	(Dollars in thousands)								
Nonaccrual loans:									
Residential real estate:									
One- to four-family	$—		$—		$—		$—		$–
Multi-family	689		—		1,477		4,229		2
Mixed-use	453		2,210		—		722		–
Non-residential real estate	659		2,372		2,480		6,634		5
Construction	—		—		—		7,661		1
Commercial and industrial	2,555		84		—		—		–
Consumer and other loans	—		—		—		—		–
Total	4,356		4,666		3,957		19,246		1
Accruing loans past due 90 days or more:									
Residential real estate:									
One- to four-family	—		—		—		—		–
Multi-family	—		—		—		1,192		2
Mixed-use	—		—		—		—		–
Non-residential real estate	—		—		—		—		–
Construction	—		—		—		—		–
Commercial and industrial	—		—		—		—		–
Consumer and other loans	—		—		—		—		–
Total	—		—		—		1,192		2
Total non-performing loans	4,356		4,666		3,957		20,438		2
Foreclosed real estate	8,733		3,985		4,271		620		9
Total non-performing assets	13,089		8,651		8,228		21,058		2
Performing troubled debt restructurings	12,263		15,535		12,236		14,039		3
Nonaccrual troubled debt restructurings	448		1,269		1,197		1,435		–
Total troubled debt restructurings	12,711		16,804		13,433		15,474		3
Less nonaccrual troubled debt restructurings in total nonaccrual loans	448		1,269		1,197		1,435		–
Troubled debt restructurings and total non-performing assets	$25,352		$24,186		$20,464		$35,097		$5
Total non-performing loans to total loans	1.02	%	1.26	%	1.17	%	5.72	%	5
Total non-performing assets to total assets	2.54	%	1.89	%	1.85	%	4.30	%	4
Total non-performing assets and troubled debt restructurings to total assets	4.92	%	5.28	%	4.61	%	7.17	%	1

Other than disclosed in the above table and in the classified assets table below, management believes that there are no other loans at December 31, 2014 and December 31, 2013 that we have serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

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The nonaccrual loans at December 31, 2014 consisted of six loans in the aggregate, comprised of one multi-family mortgage loan, one mixed-use mortgage loan, two non-residential mortgage loans, and two commercial and industrial loans. Non-performing loans decreased by $310,000, or 6.6%, to $4.4 million at December 31, 2014 from $4.7 million at December 31, 2013. The decrease was due to the foreclosure and transition into real estate owned of one mixed-use mortgage loan and one non-residential mortgage loan totaling $2.5 million, the satisfaction of one non-residential mortgage loan and two commercial and industrial loans totaling $873,000, and the conversion from non-performing to performing status of one non-residential mortgage loan totaling $824,000. These were offset by the addition of two commercial and industrial loans totaling $2.6 million, one multi-family mortgage loan totaling $689,000, one mixed-use mortgage loan totaling $453,000, and one non-residential mortgage loan totaling $211,000 that became non-performing at December 31, 2014.

The nonaccrual loans at December 31, 2013 consisted of seven loans in the aggregate, comprised of one mixed-use mortgage loan, four non-residential mortgage loans, and two commercial and industrial loans. Non-performing loans increased by $709,000, or 17.9% to $4.7 million at December 31, 2013 from $4.0 million at December 31, 2012. The increase was due to the addition of one mixed-use mortgage loan totaling $2.2 million, one non-residential mortgage loan totaling $314,000, and two commercial and industrial loans totaling $84,000. These were offset by the satisfaction of two multi-family mortgage loans totaling $196,000 and the conversion from non-performing to performing status of four mortgage loans totaling $1.8 million.

The one nonaccrual multi-family mortgage loan had an outstanding balance of $689,000 at December 31, 2014 and is secured by a 23 unit apartment building. This loan was classified as substandard at December 31, 2014. The Company has commenced a foreclosure action and the Court has appointed a receiver of rent. We are evaluating the options currently available to us.

The one nonaccrual mixed-use mortgage loan had an outstanding balance of $453,000 at December 31, 2014 and is secured by 11 apartment units and one commercial unit in two buildings on one lot. This loan was classified as substandard at December 31, 2014. The Company subsequently acquired the property as real estate owned via a foreclosure sale on February 25, 2015 and sold the property on March 9, 2015 at a loss of $98,000.

The two nonaccrual non-residential real estate loans, net of charge-offs of $400,000, totaled $659,000 at December 31, 2014 and consisted primarily of the following mortgage loans:

(1) An outstanding balance of $447,000, net of charge-offs of $400,000, secured by a strip shopping center and warehouse. This loan was classified as substandard at December 31, 2014. The property was severely damaged by fire and the Company and borrower are currently suing the insurance company and the borrower’s insurance agent as part of the Company’s collection efforts. The Court has issued a trial date for July 2015. We are evaluating options available to us.

(2) An outstanding balance of $211,000 secured by a restaurant and seafood market. This loan was classified as substandard as of December 31, 2014. The Company subsequently acquired the property as real estate owned via a foreclosure sale on February 25, 2015. We have begun marketing the property for sale through a local real estate broker.

The two nonaccrual commercial and industrial loans had an aggregate balance of $2.6 million at December 31, 2014, consisting of a line of credit with an outstanding balance of $1.4 million and remaining available line of credit of $76,000 and a term loan with an outstanding balance of $1.2 million. The loans are secured by the assets of a construction company. The Company is working with the borrower and the borrower’s surety bonding company to cure the delinquencies and/or satisfy the loans. Based on recent fair value analyses of these properties, the Company does not expect any losses beyond the amounts already charged off.

Interest income that would have been recorded for the year ended December 31, 2014 had non-accruing loans been performing in accordance with their original terms amounted to approximately $220,000. During the year ended December 31, 2014, the Bank recognized interest income of approximately $36,000 on the nonaccrual loans.

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At December 31, 2014, we owned five foreclosed properties with a net balance of $8.7 million consisting of an office building located in Lawrenceville, New Jersey, an office building located in Pittsburgh, Pennsylvania, a mixed-use property located in Peabody, Massachusetts, a building housing auto repair and auto rental facilities located in Brockton, Massachusetts, and a multi-family property located in Bristol, Connecticut. The Bristol, Connecticut property was sold on February 4, 2015. The Brockton, Massachusetts property has a contract of sale that we expect to be completed in the second quarter of 2015. We have been marketing the remaining three properties for sale or rental.

Federal regulations require us to review and classify our assets on a regular basis. In addition, the NYDFS has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. “Substandard assets” must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. “Doubtful assets” have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified “loss” is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a “special mention” category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. We recognize a loss as soon as a reasonable determination of that loss can be made. We directly charge, against earnings, that portion of the asset that is determined to be uncollectible. If an accurate determination of the loss is impossible, for any reason, we will establish an allowance in an amount sufficient to absorb the most probable loss expected. In cases where a reasonable determination of a loss cannot be made, we will adjust our allowance to reflect a potential loss until a more accurate determination can be made.

The following table shows the aggregate amounts of our classified assets at the dates indicated.

	At December 31,		
	2014	2013	2012
	(In thousands)		
Special mention assets	$1,550	$5,612	$3,058
Substandard assets	10,440	12,536	13,872
Doubtful and loss assets	—	—	—
Total classified assets	$11,990	$18,148	$16,930

The decrease in classified assets was due to the foreclosure of and transition into real estate owned of one mixed-use mortgage loan and two non-residential mortgage loans totaling $4.6 million, the satisfaction of one non-residential mortgage loan and three commercial and industrial loans totaling $1.6 million, the improvement from non-performing to performing of four commercial and industrial loans totaling $1.6 million, offset by the addition of one multi-family, two mixed-use and one non-residential mortgage loans totaling $1.6 million.

On the basis of management's review of assets, we classified $1.6 million of our assets at December 31, 2014 as special mention compared to $5.6 million classified as special mention at December 31, 2013. In addition, we classified $10.4 million as substandard at December 31, 2014 compared to $12.5 million at December 31, 2013.

The decrease in special mention assets was due to four commercial and industrial loans totaling $1.6 million that were performing, two commercial and industrial loans totaling $2.5 million that were reclassified from special mention to substandard, and three commercial and industrial loans totaling $773,000 that were paid-off, partially offset by one non-residential mortgage loan totaling $815,000 that was reclassified from substandard to special mention and one mixed-use mortgage loan totaling $235,000 that was newly classified as special mention.

The decrease in substandard assets was due to two non-residential and one mixed-use mortgage loans totaling $4.6 million that were foreclosed upon and became real estate owned, one non-residential mortgage loan totaling $824,000 that was brought current and reclassified from substandard to special mention, and one non-residential mortgage loan totaling $789,000 that was paid-off, partially offset by two commercial and industrial loans totaling $2.6 million that were reclassified from special mention to substandard and one multi-family, one mixed-use and one non-residential mortgage loans totaling $1.4 million that were newly classified as substandard.

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The substandard loans at December 31, 2014 consisted of nine loans in the aggregate – one multi-family mortgage loan, one mixed-use mortgage loan, five non-residential mortgage loans, and two commercial and industrial loans. See the nonaccrual loan discussion above for a description of the material nonaccrual loans that are classified as substandard, comprised of the one multi-family substandard mortgage loan, one mixed-use substandard mortgage loan, two of five substandard non-residential mortgage loans, and two substandard commercial and industrial loans.

The three substandard non-residential mortgage loans that were not described in the above-mentioned nonaccrual section consisted of three mortgage loans that were current, had an outstanding balance of $6.1 million, net of charge-offs of $2.4 million, and were secured by a hotel as of December 31, 2014.

Troubled Debt Restructured Loans. Troubled debt restructurings occur when we grant borrowers concessions that we would not otherwise grant but for economic or legal reasons pertaining to the borrower's financial difficulties. These concessions may include, but are not limited to, modifications of the terms of the debt, the transfer of assets or the issuance of any equity interest by the borrower to satisfy all or part of the debt, or the substitution or addition of borrower(s). Generally, we will not upgrade the internal classification of a troubled debt restructuring until the borrower has demonstrated the ability to make principal and interest payments under the restructure terms for at least six consecutive months.

There were no loans modified that were deemed to be troubled debt restructurings during 2014. As of December 31, 2014, none of the loans that were modified during the previous twelve months had defaulted in 2014. There were no charge-offs of loans classified as troubled debt restructurings during 2014. Additions for the period consist of real estate taxes and similar items paid to protect the collateral position of the Company.

The following tables show the activity in troubled debt restructured loans for the period indicated:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2013	$ 6,419	$ 10,385	$ —	$ —	$ —	$16,804
Additions	3	166	—	—	—	169
Repayments	(62)	(42)	—	—	—	(104)
Amortization of TDR reserves	17	73	—	—	—	90
Loans removed from TDR status	—	—	—	—	—	—
Transferred to REO	(2,151)	(2,097)	—	—	—	(4,248)
Balance at December 31, 2014	$ 4,226	$ 8,485	$ —	$ —	$ —	$12,711
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

There were four loans modified in a troubled debt restructuring during 2013.

The multi-family mortgage loan that was modified had an original interest rate of 6.75% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date. This loan was paid-off on October 8, 2013.

Two non-residential mortgage loans that were modified had an original interest rate of 6.25% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

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One non-residential mortgage loan that was modified had an original interest rate of 4.75% with an amortization of 30 years. The Company reduced the interest rate and converted the monthly payments to interest only for nineteen months and then amortizing for 30 years, with a balloon payment after two years from the modification date. This loan was foreclosed upon and became real estate owned in December 2014.

As of December 31, 2013, none of the loans that were modified during the previous twelve months had defaulted in 2013. There were no charge offs of loans classified as troubled debt restructurings during 2013.

Additions for the period consist of the aforementioned four mortgage loans that were modified, and real estate taxes and similar items paid to protect the collateral position of the Company. One of the modified mortgage loans was paid-off on October 8, 2013.

The following tables show the activity in troubled debt restructured loans for the period indicated:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2012	$ 6,444	$ 6,989	$ —	$ —	$ —	$13,433
Additions	307	3,262	—	—	—	3,569
Repayments	(385)	(13)	—	—	—	(398)
Amortization of TDR reserves	53	147	—	—	—	200
Loans removed from TDR status	—	—	—	—	—	—
Charge-offs	—	—	—	—	—	—
Balance at December 31, 2013	$ 6,419	$ 10,385	$ —	$ —	$ —	$16,804
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	At December 31,					
	2014		2013		2012	
	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
	(In thousands)					

Residential real estate:						
One- to four-family	$—	$ —	$—	$ —	$—	$ —
Multi-family	—	—	—	—	—	89
Mixed-use	—	453	—	2,210	—	—
Non-residential real estate	—	—	—	—	1,259	—
Construction	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer and other loans	—	—	—	—	—	—
Total	$—	$ 453	$—	$ 2,210	$1,259	$ 89

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The delinquent loan at December 31, 2014 consisted of one mixed-use mortgage loan that the Company has classified as nonaccrual and substandard.

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable credit losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. The recommendations for increases or decreases to the allowance are presented by management to the board of directors.

Prior to the fourth quarter of 2012, our methodology for assessing the appropriateness of the allowance for loan losses consisted of: (1) a specific allowance on identified impaired loans, if appropriate; and (2) a general valuation allowance on the remainder of the loan portfolio. Although the amount of each element of the allowance was determined separately, the entire allowance for loan losses was available for the entire portfolio. During the fourth quarter of 2012 we adjusted our methodology for assessing the appropriateness of the allowance for loan losses to eliminate the use of a specific allowance on identified impaired loans and immediately charge off any identified impairment on such loans. Currently, our methodology for assessing the appropriateness of the allowance for loan losses consists solely of a general valuation allowance on the loan portfolio.

We establish a general allowance for pools of loans by loan class to recognize the inherent losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning a historical loss factor. The historical loss factors are adjusted for qualitative factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These qualitative factors may include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, legal and regulatory issues, policies and procedures in underwriting standards, staff lending experience, recent loss experience in particular segments of the portfolio, collateral value, loan volumes and concentration, classified asset trends, delinquency trends and risk rating trends. These loss factors are subject to ongoing evaluation to ensure their relevance in the current economic environment.

At December 31, 2014, our allowance for loan losses was $3.8 million and represented 0.89% of total gross loans. At December 31, 2013, our allowance for loan losses was $4.0 million and represented 1.08% of total gross loans. At December 31, 2012, our allowance for loan losses was $4.6 million and represented 1.38% of total gross loans. The primary reason for the reduction in allowance for loan losses from 2013 to 2014 was due to an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions, a decrease in our borrowers requesting assistance through modification of loan terms, and charge-offs of $781,000 against three non-performing multi-family, one non-performing mixed-use, and one non-performing non-residential mortgage loans. This was offset by recoveries of $790,000 from two multi-family mortgage loans and two non-residential mortgage loans.

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The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	At December 31, 2014			2013			2012		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential real estate:									
One- to four-family	$33	0.9 %	3.1 %	$29	0.7 %	3.2 %	$19	0.4 %	2.3 %
Multi-family	1,689	44.3	44.1	2,266	56.4	50.9	2,910	62.6	52.8
Mixed-use	301	7.9	14.4	261	6.5	13.6	287	6.2	12.4
Non-residential real estate	692	18.1	19.4	896	22.3	22.1	996	21.5	24.5
Construction	492	12.9	10.9	97	2.4	1.8	—	—	0.2
Commercial and industrial	494	12.9	8.1	456	11.4	8.4	434	9.3	7.8
Consumer	—	—	—	—	—	—	—	—	—
Unallocated	115	3.0	—	10	0.3	—	—	—	—
Total allowance for loan losses	$3,816	100.0	100.0 %	$4,015	100.0 %	100.0 %	$4,646	100.0 %	100.0 %

	At December 31, 2011			2010			
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans
	(Dollars in thousands)						
Residential real estate:							
One- to four-family	$—	— %	0.2 %	$—	—	%	0.1 %
Multi-family	3,390	45.8	52.9	3,450	45.1		51.1
Mixed-use	391	5.3	14.3	474	6.2		14.9
Non-residential real estate	1,596	21.6	23.4	1,560	20.4		27.1
Construction	1,724	23.3	2.5	2,083	27.2		3.5
Commercial and industrial	296	4.0	6.7	80	1.1		3.3
Consumer	—	—	—	—	—	—	—
Unallocated	—	—	—	—	—	—	—
Total allowance for loan losses	$7,397	100.0 %	100.0 %	$7,647	100.0	%	100.0 %

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that the NYDFS or FDIC, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. The NYDFS or FDIC may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our consolidated financial condition and results of operations.

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Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Year Ended December 31, 2014	2013	2012	2011	2010
	(Dollars in thousands)				
Allowance at beginning of period	$4,015	$4,646	$7,397	$7,647	$6,733
Provision for loan losses	(208)	(554)	5,623	1,113	3,487
Charge offs:					
Residential real estate:					
One- to four-family	—	—	(59)	—	—
Multi-family	(354)	—	(4,035)	(1,358)	(1,211)
Mixed-use	(386)	—	(278)	—	—
Non-residential real estate	(41)	(105)	(2,374)	(17)	(1,407)
Construction	—	—	(1,715)	—	—
Commercial and industrial	—	—	(28)	—	—
Consumer	—	—	—	—	—
Total charge-offs	(781)	(105)	(8,489)	(1,375)	(2,618)
Recoveries:					
Residential real estate:					
One- to four-family	—	—	—	—	—
Multi-family	225	—	115	12	45
Mixed-use	—	24	—	—	—
Non-residential real estate	565	4	—	—	—
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	—	—	—	—	—
Total recoveries	790	28	115	12	45
Net charge-offs	9	(77)	(8,374)	(1,363)	(2,573)
Allowance at end of period	$3,816	$4,015	$4,646	$7,397	$7,647
Allowance to non-performing loans	87.60%	86.05%	117.41%	36.19%	35.07%
Allowance to total loans outstanding at the end of the period	0.89%	1.08%	1.38%	2.07%	2.06%
Net charge-offs to average loans outstanding during the period	0.00%	0.03%	2.37%	0.37%	0.67%

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our chief executive officer, president, chief financial officer, chief retail banking officer, and three chief lending officers, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Net Portfolio Value Analysis. We use a net portfolio value analysis prepared by an independent third party to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of the portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in the net portfolio value of the Bank at December 31, 2014 that would occur in the event of an immediate change in interest rates based on certain assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point (“bp”) Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
400	$105,406	(11,265)	(9.7)%	21.62%	(57) bp
300	108,282	(8,389)	(7.2)	21.82	(37) bp
200	111,884	(4,787)	(4.1)	22.12	(7) bp
100	114,262	(2,409)	(2.1)	22.17	(2) bp
0	116,671			22.19	
(100)	124,058	7,387	6.3	23.09	90 bp

We use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

***Liquidity Management*.** Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the FHLB of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

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We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled $34.0 million at December 31, 2014 and consist primarily of deposits at other financial institutions (predominantly ACBB, the FHLB of New York, and the Federal Reserve Bank of New York) and miscellaneous cash items. Securities classified as available-for-sale provide an additional source of liquidity. Total securities classified as available-for-sale were $40,000 at December 31, 2014 and $113,000 at December 31, 2013.

At December 31, 2014, we had $88.1 million in loan commitments outstanding. At December 31, 2014, this consisted of $34.6 million in unused commercial and industrial loan lines of credit, $32.9 million in construction loans in process, $16.2 million of real estate loan origination commitments, $2.7 million in unused multi-family real estate equity lines of credit, $1.6 million in stand-by letters of credit, and $118,000 in unused consumer lines of credit. Certificates of deposit due within one year of December 31, 2014 totaled $57.8 million. This represented 31.9% of certificates of deposit at December 31, 2014. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2014. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts. At December 31, 2014, we had the ability to borrow $83.2 million, net of $30.0 million in outstanding advances, from the FHLB of New York. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan and commercial loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

During the quarter ended September 30, 2014, the Company became a member of ACBB in order to provide the Company with an additional source of correspondent services that includes the ability to borrow $8.0 million from ACBB via a line of credit. The Company has thus far not utilized this line of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. The amount of dividends that the Bank may declare and pay to the Company, is subject to the restrictions imposed by New York

State law and FDIC regulation, as previously discussed under "*Regulation and Supervision – Regulation of the Bank – New York State Law*" and *"Regulation and Supervision – FDIC Regulation – Dividend Limitations."* The Company's liquidity may depend, in part, upon its receipt of dividends from the Bank because the Company has no source of income other than earnings from the investment of the net proceeds from its initial public offering and interest on the loans it has purchased. The Company's purchase of loan participations during the fourth quarter of 2014 reduced the Company's liquidity by $1.5 million. At December 31, 2014, the Company had liquid assets of $9.9 million.

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The following table presents our primary investing and financing activities during the periods indicated.

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Investing activities:			
Loans disbursed or closed	$(167,331)	$(90,593)	$(72,303)
Loan principal repayments and charge-offs	111,877	57,091	83,579
Proceeds from maturities and principal repayments of securities	1,955	3,493	4,052
Purchases of securities	—	—	—
Purchases of certificates of deposit	—	(1,992)	—
Maturities of certificates of deposit	1,992	249	2,241
Purchase of bank owned life insurance	—	—	(2,500)
Proceeds from sale of premises and equipment	—	32	—
Purchases of premises and equipment	(178)	(138)	(4,103)
Financing activities:			
Increase (decrease) in deposits	48,843	7,089	(35,516)
Proceeds from FHLB-NY advances	25,001	16,000	—
Repayment of FHLB-NY advances	(16,001)	(10,000)	(5,000)

Capital Management. We are subject to various regulatory capital requirements administered by the NYDFS, the FDIC and the Federal Reserve, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2014, we exceeded all of our regulatory capital requirements. We are considered “well capitalized” under regulatory guidelines.

The capital from our initial public offering increased our liquidity and capital resources. In addition, the sale of our First Avenue branch office building in the second quarter of 2007 further increased our capital in 2007. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering and the sale of the branch office building are used for general corporate purposes, including the funding of lending activities. Our financial condition has been enhanced by the capital from the offering, resulting in increased net interest-earning assets. However, the large increase in equity resulting from the capital raised in the offering and the branch office building sale will, initially, have an adverse impact on our return on equity. From time to time, we may consider capital management tools such as cash dividends and common stock repurchases.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see Note 4 of the Notes to the Consolidated Financial Statements. We currently have no plans to engage in hedging activities in the future.

For the years ended December 31, 2014 and 2013, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our consolidated financial condition, results of operations or cash flows.

Effect of Inflation and Changing Prices

The financial statements and related financial data presented in this Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included herein beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 12, 2013, the Company dismissed ParenteBeard LLC as its independent certifying accountant. The Audit Committee of the Company's Board of Directors approved the dismissal. For information concerning the change in the Company's independent registered public accounting firm, the information contained under the section captioned "Item 2 – Ratification of the Independent Registered Public Accounting Firm" in Northeast Community Bancorp's Proxy Statement for the 2014 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The reports of ParenteBeard LLC on the consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2011 and December 31, 2012 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the two most recent fiscal years ended December 31, 2012 and 2011 and through the subsequent interim period preceding August 12, 2013, there were: (1) no disagreements between the Company and ParenteBeard LLC on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of ParenteBeard LLC would have caused them to make reference thereto in their reports on the Company's financial statements for such years, and (2) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

On August 13, 2013, the Company engaged BDO USA, LLP its independent certifiying accountant. The Audit Committee of the Company's Board of Directors approved the engagement.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company’s management, including the Company’s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company’s “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the “SEC”) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Controls Over Financial Reporting

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Management's annual report on internal control over financial reporting is incorporated herein by reference to the Company's audited Consolidated Financial Statements in this Annual Report on Form 10-K.

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2014 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

For information concerning Northeast Community Bancorp's directors, the information contained under the section captioned *"Item 1—Election of Directors"* in the Proxy Statement is incorporated herein by reference.

Executive Officers

For information relating to officers of Northeast Community Bancorp, the section captioned *"Item 1—Election of Directors"* in the Proxy Statement, and Part I, Item 1, *"Business—Executive Officers of the Registrant"* in this Annual Report on Form 10-K, are incorporated by reference.

Compliance with Section 16(a) of the Exchange Act

For information regarding compliance with Section 16(a) of the Exchange Act, the information contained under the section captioned *"Section 16(a) Beneficial Ownership Reporting Compliance"* in the Proxy Statement is incorporated herein by reference.

Disclosure of Code of Ethics

Northeast Community Bancorp has adopted a Code of Ethics and Business Conduct, a copy of which can be found in the investor relations section of the Company's website at www.necommunitybank.com.

Corporate Governance

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned *"Corporate Governance and Board Matters"* in the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive compensation is set forth under the section captioned *"Executive Compensation"* in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned *"Stock Ownership"* in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned *"Stock Ownership"* in the Proxy Statement.

(c) Changes in Control

Management of Northeast Community Bancorp knows of no arrangements, including any pledge by any person or securities of Northeast Community Bancorp, the operation of which may at a subsequent date result in a change in control of the registrant.

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(d) Equity Compensation Plan Information

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information relating to certain relationships and related transactions and director independence is set forth under the sections captioned *"Transactions with Related Persons"* and *"Corporate Governance and Board Matters – Director Independence"* in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information relating to the principal accountant fees and services is set forth under the section captioned *"Ratification of the Independent Registered Public Accounting Firm"* in the Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3)	Exhibits
3.1	Amended and Restated Charter of Northeast Community Bancorp, Inc. (1)
3.2	Amended and Restated Bylaws of Northeast Community Bancorp, Inc. (2)
4.1	Specimen Stock Certificate of Northeast Community Bancorp, Inc. (1)
10.1	Northeast Community Bank Employee Severance Compensation Plan (1)
10.2	Northeast Community Bancorp, Inc. Employment Agreement for Kenneth A. Martinek (1)*
10.3	Northeast Community Bank Employment Agreement for Kenneth A. Martinek (1)*
10.4	Northeast Community Bank Directors’ Retirement Plan (1)*
10.5	Northeast Community Bank Directors’ Deferred Compensation Plan (1)*
10.6	Northeast Community Bank Executive Incentive Deferral Plan (3)*
10.7	Northeast Community Bank Supplemental Executive Retirement Plan, as amended, and Participation Agreement with Kenneth A. Martinek (4)*
10.8	Participation Agreement under the Northeast Community Bank Supplemental Executive Retirement Plan for Jose M. Collazo* (5)
10.9	Northeast Community Bancorp, Inc. Employment Agreement for Jose M. Collazo* (6)
10.10	Northeast Community Bank Employment Agreement for Jose M. Collazo* (7)
21.0	List of Subsidiaries
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101.0	The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Stockholders’ Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Management contract or compensatory plan, contract or arrangement.

(1) Incorporated herein by reference to the Company’s Registration Statement on Form S-1, as amended, initially filed with the SEC on March 12, 2006.

(2) Incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on January 29, 2015.

(3)

Incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

(4) Incorporated herein by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

(5) Incorporated here by reference to Exhibit 10.1 of the Company’s Quarter Report on Form 10-Q/A for the quarter ended June 30, 2012.

(6) Incorporated herein by reference to Exhibit 10.10 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

(7) Incorporated herein by reference to Exhibit 10.11 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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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.

	NORTHEAST COMMUNITY BANCORP, INC.	
Date: March 31, 2015	By:	/s/ Kenneth A. Martinek Kenneth A. Martinek Chief Executive Officer

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

Name	Title	Date
/s/ Kenneth A. Martinek Kenneth A. Martinek	Chief Executive Officer and Director (principal executive officer)	March 31, 2015
/s/ Jose M. Collazo Jose M. Collazo	President, Chief Operating Officer and Director	March 31, 2015
/s/ Donald S. Hom Donald S. Hom	Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	March 31, 2015
/s/ Diane B. Cavanaugh Diane B. Cavanaugh	Director	March 31, 2015
/s/ Arthur M. Levine Arthur M. Levine	Director	March 31, 2015

/s/ Eugene M. Magier Eugene M. Magier	Director	March 31, 2015
/s/ Charles A. Martinek Charles A. Martinek	Director	March 31, 2015
/s/ John F. McKenzie John F. McKenzie	Director	March 31, 2015
/s/ Linda M. Swan Linda M. Swan	Director	March 31, 2015
/s/ Kenneth H. Thomas Kenneth H. Thomas	Director	March 31, 2015

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Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, utilizing the 1992 framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2014 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Our independent registered public accounting firm, BDO USA, LLP, is not required to issue an opinion on our internal control over financial reporting.

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Northeast Community Bancorp, Inc.

Consolidated Financial Report

December 31, 2014

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Northeast Community Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Northeast Community Bancorp, Inc. and Subsidiary (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Community Bancorp, Inc. and Subsidiary at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

New York, New York
March 31, 2015

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Northeast Community Bancorp, Inc.

Consolidated Statements of Financial Condition

	December 31, 2014	2013
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and amounts due from depository institutions	$ 3,676	$ 3,794
Interest-bearing deposits	30,334	27,737
Cash and cash equivalents	34,010	31,531
Certificates of deposit	150	2,142
Securities available-for-sale	40	113
Securities held-to-maturity (fair value of $6,805 and $8,739, respectively)	6,595	8,444
Loans receivable, net of allowance for loan losses of $3,816 and $4,015 respectively	423,445	367,825
Premises and equipment, net	11,718	12,234
Investments in restricted stock, at cost	1,933	1,594
Bank owned life insurance	21,113	20,490
Accrued interest receivable	1,453	1,267
Goodwill	749	749
Other intangible assets	284	345
Real estate owned	8,733	3,985
Other assets	5,202	7,506
Total assets	$ 515,425	$ 458,225
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 37,088	$ 28,310
Interest bearing	336,964	296,899
Total deposits	374,052	325,209
Advance payments by borrowers for taxes and insurance	3,338	3,987
Federal Home Loan Bank advances	30,000	21,000
Accounts payable and accrued expenses	4,225	3,861
Total liabilities	411,615	354,057
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 12,331,202 and 12,566,952 shares, respectively	132	132
Additional paid-in capital	57,007	57,083
Unearned Employee Stock Ownership Plan ("ESOP") shares	(2,851)	(3,111)
Retained earnings	55,548	54,428
Treasury stock – at cost, 893,798 and 658,048 shares, respectively	(5,999)	(4,291)
Accumulated other comprehensive loss	(27)	(73)
Total stockholders' equity	103,810	104,168
Total liabilities and stockholders' equity	$ 515,425	$ 458,225

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Operations

	Years Ended December 31, 2014	2013
	(In thousands, except per share amounts)	
INTEREST INCOME:		
Loans	$ 19,636	$ 18,210
Interest-earning deposits	30	13
Securities – taxable	282	329
Total Interest Income	19,948	18,552
INTEREST EXPENSE:		
Deposits	3,287	2,951
Borrowings	157	241
Total Interest Expense	3,444	3,192
Net Interest Income	16,504	15,360
CREDIT FOR LOAN LOSSES	(208)	(554)
Net Interest Income after Credit for Loan Losses	16,712	15,914
NON-INTEREST INCOME:		
Other loan fees and service charges	463	601
Loss on disposition of equipment	—	(1)
Earnings on bank owned life insurance	623	638
Investment advisory fees	779	729
Other	24	22
Total Non-Interest Income	1,889	1,989
NON-INTEREST EXPENSES:		
Salaries and employee benefits	8,658	8,224
Occupancy expense	1,381	1,469
Equipment	526	637
Outside data processing	1,109	1,046
Advertising	42	59
Impairment loss on goodwill	—	334
Real estate owned expense	486	425
FDIC insurance premiums	430	392
Other	3,485	3,780
Total Non-Interest Expenses	16,117	16,366
INCOME BEFORE PROVISION FOR INCOME TAXES	2,484	1,537
PROVISION FOR INCOME TAXES	787	400
NET INCOME	$ 1,697	$ 1,137
NET INCOME PER COMMON SHARE - BASIC AND DILUTED	$ 0.14	$ 0.09

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	12,112	12,316
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.12	$ 0.12

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2014	2013
	(In thousands)	
Net Income	$ 1,697	$ 1,137
Other comprehensive income:		
Unrealized loss on securities available-for-sale arising during the year	(2)	(1)
Defined benefit pension:		
Reclassification adjustments out of accumulated other comprehensive loss:		
Amortization of prior service cost (1)	21	21
Amortization of actuarial (gain) loss (1)	(2)	36
Actuarial gains arising during period	59	275
Total	76	331
Income tax expense (2)	(30)	(132)
Total other comprehensive income	46	199
Total Comprehensive Income	$ 1,743	$ 1,336

(1) Amounts are included in salaries and employees benefits in the audited consolidated statements of operations as part of net periodic pension cost. See Note 15 for further information.

(2) Amounts are included in provision for income taxes in the audited consolidated statements of operations.

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	(In thousands, except share and per share amounts)						
Balance - January 1, 2013	$132	$57,178	$(3,370)	$53,893	$(3,712)	$(272)	$103,849
Net income	—	—	—	1,137	—	—	1,137
Other comprehensive income	—	—	—	—	—	199	199
Purchase of 77,800 shares of treasury stock treasury stock	—	—	—	—	(579)	—	(579)
Cash dividend declared ($0.12 per share)	—	—	—	(602)	—	—	(602)
ESOP shares earned	—	(95)	259	—	—	—	164
Balance - December 31, 2013	$132	$57,083	$(3,111)	$54,428	$(4,291)	$(73)	$104,168
Net income	—	—	—	1,697	—	—	1,697
Other comprehensive income	—	—	—	—	—	46	46
Purchase of 235,750 shares of treasury stock treasury stock	—	—	—	—	(1,708)	—	(1,708)
Cash dividend declared ($0.12 per share)	—	—	—	(577)	—	—	(577)
ESOP shares earned	—	(76)	260	—	—	—	184
Balance - December 31, 2014	$132	$57,007	$(2,851)	$55,548	$(5,999)	$(27)	$103,810

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2014	2013
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	$1,697	$1,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (accretion) amortization of securities premiums and discounts, net	(35)	66
Credit for loan losses	(208)	(554)
Depreciation	694	756
Impairment loss on goodwill	—	334
Net amortization of deferred loan fees and costs	144	142
Amortization of intangible assets	61	61
Deferred income tax expense	73	211
Loss on sale of real estate owned	—	51
Earnings on bank owned life insurance	(623)	(638)
Loss on dispositions of premises and equipment	—	1
ESOP compensation expense	184	164
Increase in accrued interest receivable	(186)	(291)
Decrease (increase) in other assets	2,201	(10)
Increase in accounts payable and accrued expenses	447	304
Net Cash Provided by Operating Activities	4,449	1,734
Cash Flows from Investing Activities:		
Net increase in loans	(62,342)	(33,626)
Principal repayments on securities available-for-sale	71	16
Principal repayments on securities held-to-maturity	1,884	3,477
Proceeds from maturities of certificates of deposit	1,992	249
Purchases of certificates of deposit	—	(1,992)
Proceeds from sale of real estate owned	2,100	399
Capitalized cost on real estate owned	(62)	(164)
Net purchases of FHLB of NY stock	(339)	(239)
Purchases of premises and equipment	(178)	(138)
Dispositions of premises and equipment	—	45
Net Cash Used in Investing Activities	(56,874)	(31,973)
Cash Flows from Financing Activities:		
Net increase in deposits	48,843	7,089
Proceeds from FHLB of NY advances	25,001	16,000
Repayment of FHLB of NY advances	(16,001)	(10,000)
Purchase of treasury stock	(1,708)	(579)
(Decrease) increase in advance payments by borrowers for taxes and insurance	(649)	471
Cash dividends paid	(582)	(453)
Net Cash Provided by Financing Activities	54,904	12,528
Net Increase (Decrease) in Cash and Cash Equivalents	2,479	(17,711)

Cash and Cash Equivalents - Beginning	31,531	49,242
Cash and Cash Equivalents - Ending	$34,010	$31,531

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows (Continued)

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Supplementary Cash Flows Information:		
Income taxes (refunded) paid	$ (1,506)	$ 200
Interest paid	$ 3,444	$ 3,193
Supplementary Disclosure of Non-Cash Investing and Financing Activities:		
Loans receivable transferred to real estate owned	$ 6,786	$ —
Dividends declared and not paid	$ 143	$ 149

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

The following is a description of the Company’s business and significant accounting and reporting policies:

Nature of Business

Northeast Community Bancorp, Inc. (the “Company”) is a Federally-chartered corporation that was organized to be a mid-tier holding company for Northeast Community Bank (the “Bank”) in conjunction with the Bank’s reorganization from a mutual savings bank to a mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The Company’s primary activity is the ownership and operation of the Bank.

The Bank is principally engaged in the business of attracting deposits and investing those funds into mortgage and commercial loans. When demand for loans is low, the Bank invests in debt securities. Currently the Bank conducts banking operations from its headquarters in White Plains, New York, its four full service branches in New York City, New York, its four full service branches in the Boston, Massachusetts suburban area, and its loan production offices in Massachusetts and New York, gathering deposits and lending from Pittsburgh, Pennsylvania to southern New Hampshire.

The Bank also offers investment advisory and financial planning services under the name Hayden Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

New England Commercial Properties LLC (“NECP”), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. New England Commercial Properties, LLC currently owns six foreclosed properties located in Connecticut, Massachusetts, New Jersey, and Pennsylvania.

NECB Financial Services Group, LLC (“NECB Financial”), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in the third quarter of 2012 as a complement to Hayden Wealth Management Group. NECB Financial has not conducted any business.

The consolidated financial statements include the accounts of the Company, the Bank, NECP, and NECB Financial (collectively the “Company”) and have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All significant inter-company accounts and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates.

The most significant estimate pertains to the allowance for loan losses. The borrowers’ abilities to meet contractual obligations and collateral value are the most significant assumptions used to arrive at the estimate. The risks associated with such estimates arise when unforeseen conditions affect the borrowers’ abilities to meet the contractual obligations of the loan and result in a decline in the value of the supporting collateral. Such unforeseen changes may have an adverse effect on the consolidated results of operations and financial position of the Company.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Additionally, the Company is exposed to significant changes in market interest rates. Such changes could have an adverse effect on consolidated earnings and consolidated financial position, particularly in those situations in which the maturities or re-pricing of assets are different than the maturities or re-pricing of the supporting liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits in other banks, all with original maturities of three months or less.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Certificates of Deposit

Certificates of deposit are carried at cost which approximates fair value and have maturities of less than one year.

Securities

The Company is required to classify its securities among three categories: held to maturity, trading, and available for sale. Management determines the appropriate classification at the time of purchase. Held to maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost (unless there is other than temporary impairment). Trading securities are those debt and equity securities which are bought and held principally for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses included in earnings. Available for sale securities are those debt and equity securities which are neither held to maturity securities nor trading securities and are reported at fair value, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders' equity. The Company did not have trading securities in its portfolio during 2014 or 2013.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are temporary or other-than-temporary. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income (loss) ("OCI") with offsetting adjustments to the carrying value of the security and the balance of related deferred taxes. Temporary impairments on held to maturity securities are not recorded in the consolidated financial statements; however, information concerning the amount and duration of unrealized losses on held to maturity securities is disclosed.

Other-than-temporary impairments on debt securities that the Company has decided to sell, or will, more likely than not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If either of these conditions regarding the likelihood of sale apply for a debt security, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. Credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related other-than-temporary impairments in earnings. Noncredit-related other-than-temporary impairments on debt securities are recognized in OCI. Premiums and discounts on all securities are amortized/accreted to maturity by use of the level-yield method. Gain or loss on sales of securities is based on the specific identification method.

Loans

Loans are stated at unpaid principal balances plus net deferred loan origination fees and costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured and in the process of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms. Net loan origination fees and costs are deferred and amortized into income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Risk characteristics associated with the types of loans we underwrite are as follows:

Multi-family, Mixed-use and Non-residential Real Estate Loans. Loans secured by multi-family, mixed-use and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

Commercial and Industrial Loans. Unlike residential mortgage loans, which are generally made on the basis of a borrower's ability to make repayment from the operation and cash flow from the real property whose value tends to be more ascertainable, commercial and industrial loans are of higher risk and tend to be made on the basis of a borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty and costs of monitoring the loan; and (2) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loans outstanding at any time and by spreading the loans among multi-family, mixed-use and non-residential projects.

Consumer Loans. We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans represent a significant risk of loss to the Company.

The allowance consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when 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 and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment 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 records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The Company does not evaluate individual 1-4 family residential real estate and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company’s impaired loans are measured based on the estimated fair value of the loan’s collateral or discounted cash flows.

For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower’s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in policies and procedures in underwriting standards and collections.
2. Changes in economic conditions.
3. Changes in nature and volume of lending.
4. Experience of origination team.
5. Changes in past due loan volume and severity of classified assets.

6. Quality of loan review system.
7. Collateral values in general throughout lending territory.
8. Concentrations of credit.
9. Competition, legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status,

size of loans, type of collateral and financial condition of the borrowers.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date at a below market rate. Adversely classified, non-accrual troubled debt restructurings may be returned to accrued status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All troubled debt restructured loans are classified as impaired.

Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is appropriate as of December 31, 2014.

Concentration of Risk

The Company's lending activity is concentrated in loans secured by multi-family and non-residential real estate located primarily in the Northeast and Mid-Atlantic regions of the United States. The Company also had deposits in excess of the FDIC insurance limit at other financial institutions. At December 31, 2014, such deposits totaled $18.0 million held by Atlantic Community Bankers Bank, $8.9 million held by the Federal Home Loan Bank of New York, and $3.4 million held by the Federal Reserve Bank of New York. Generally, deposits in excess of $250,000 are not insured by the FDIC.

Premises and Equipment

Land is stated at cost. Buildings and improvements, leasehold improvements and furnishings and equipment are stated at cost less accumulated depreciation and amortization computed on the straight-line method over the following useful lives:

	Years
Buildings	30 - 50
Building improvements	10 - 50
Leasehold improvements	1 - 15
Furnishings and equipment	3 - 5

Maintenance and repairs are charged to operations in the years incurred.

Bank Owned Life Insurance ("BOLI")

The Company owns life insurance on the lives of certain of its officers. The cash surrender value is recorded as an asset and the change in cash surrender value is included in non-interest income and is tax-exempt. The BOLI can be liquidated, if necessary, with tax consequences. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Investments in Restricted Stock

Federal law requires a member institution of the Federal Home Loan Bank ("FHLB") system to hold stock of its district FHLB according to a predetermined formula. The Company also owns restricted stock in Atlantic Community Bankers Bank ("ACBB"), a correspondent banker's bank. These stocks are carried at cost.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill at both December 31, 2014 and 2013, totaled $749,000 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit's goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded in 2014 and impairment charges of $334,000 were recorded for the years ended December 31, 2013. The impairments were caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Other Intangible Assets

Other intangible assets at December 31, 2014 and 2013, totaled $284,000 and $345,000, respectively, and consist of the value of customer relationships acquired in a business combination completed by the Company in November 2007. The Company is amortizing these assets, using the straight-line method, over the remaining useful life of 11.7 years. Amortization expense is included in other non-interest expenses. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset's remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. The Company reviews intangible assets subject to amortization for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. If intangible assets are found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value. No impairment charges were recorded in 2014 or 2013.

Real Estate Owned

Real estate owned is carried at the lower of cost or fair value of the related property, as determined by current appraisals less estimated costs to sell. Foreclosed real estate is initially recorded at the fair value of property acquired minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Write-downs on these properties, which occur after the initial transfer from the loan portfolio, are recorded as operating expenses. Costs of holding such properties are charged to expense in the current period. Gains, to the extent allowable, and losses on the disposition of these properties are reflected in current operations.

Income Taxes

The Company files a consolidated federal income tax return. Income taxes are allocated to the Company, Bank, NECP, and NECB Financial based upon their respective income or loss included in the consolidated income tax return. The Company, the Bank, NECP, and NECB Financial file combined or separate state and city income tax returns depending on the particular requirements of each jurisdiction.

Federal, state and city income tax expense has been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset, which is not more likely than not to be realized.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Company accounts for uncertainty in income taxes recognized in its consolidated financial statements in accordance with ASC Topic 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2014 and 2013, and has not recognized any liabilities for tax uncertainties as of December 31, 2014 and 2013. The Company's policy is to recognize income tax related interest and penalties in income tax expense; such amounts were not significant during the years ended December 31, 2014 and 2013. The tax years subject to examination by federal, state, and city taxing authorities are 2011 through 2014.

Other Comprehensive Income (Loss)

The Company records in accumulated other comprehensive income (loss), net of related deferred income taxes, unrealized gains and losses on available for sale securities and the prior service cost and actuarial gains and losses related to the Outside Directors Retirement Plan ("DRP") that have not yet been recognized in expense.

Gains and losses on the sale of securities, if any, are reclassified to non-interest income upon the sale of the related securities or upon the recognition of a security impairment loss and a portion of the prior service cost and actuarial gains and losses of the DRP are reclassified to non-interest expense.

At December 31, 2014, accumulated other comprehensive loss totaled $27,000 and included $48,000 in prior service cost and actuarial losses of the DRP net of $21,000 of related deferred income taxes. At December 31, 2013, accumulated other comprehensive loss totaled $73,000 and included $2,000 of unrealized gains on available for sale securities net of $1,000 of related deferred income taxes and $126,000 in prior service cost and actuarial losses of the DRP net of $52,000 of related deferred income taxes.

Net Income Per Common Share

Basic net income per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating basic net income per common share until they are committed to be released. There were no dilutive common share equivalents at December 31, 2014 or 2013.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated statement of financial condition when funded.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 2 – Mutual Holding Company Reorganization and Regulatory Matters

On July 5, 2006, the Bank reorganized from a mutual savings bank to a mutual holding company structure. In the reorganization, the Company sold 5,951,250 shares of its common stock to the public and issued 7,273,750 shares of its common stock to Northeast Community Bancorp, MHC (“MHC”).

The MHC, which owned 59.0% of the Company’s common stock as of December 31, 2014, must hold at least 50.1% of the Company’s stock so long as the MHC exists.

Due to the conversion of the Bank to a New York State-chartered savings bank on June 29, 2012, the Federal Deposit Insurance Corporation (“FDIC”) and the New York State Department of Financial Services (“NYS”) are now the Bank’s primary regulator replacing the OCC. The FDIC regulations impose limitations upon all capital distributions, including cash dividends, by savings institutions such as the Bank. Under these regulations, an application to and a prior approval of the FDIC are required before any capital distribution if (1) the institution does not meet the criteria for “expedited treatment” of applications under FDIC regulations; (2) total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years; (3) the institution would be undercapitalized following the distribution; or (4) the distribution would otherwise be contrary to statute, regulation or agreement with the FDIC. If an application is not required, the Bank would still be required to provide the FDIC with prior notification. The Company’s ability to pay dividends, should any be declared, may depend on the ability of the Bank to pay dividends to the Company.

The Federal Reserve Board, as regulatory agency for the MHC, has adopted regulations which require the MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the regulations also require that the MHC obtain the approval of a majority of the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. Northeast Community Bancorp, MHC has waived receipt of all dividends from Northeast Community Bancorp in prior years, except in 2012 when Northeast Community Bancorp, MHC received $218,000 in dividends from Northeast Community Bancorp.

Dividends declared by the Company in 2014 and 2013 and waived by the MHC totaled approximately $873,000 and $873,000, respectively. As of December 31, 2014, total dividends waived by the MHC aggregated $6,110,000.

The Bank is required to maintain certain levels of capital in accordance with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), FDIC, and NYS regulations. Under these capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Under the FDIC regulations, the Bank must have: (1) tangible capital equal to 1.5% of tangible assets, (2) core capital equal 3% of tangible assets, and (3) total (risk-based) capital equal to 8% of risk-weighted assets. Tangible capital consists generally of stockholders' equity less most intangible assets. Core capital consists of tangible capital plus certain intangible assets such as qualifying purchased mortgage-servicing rights. Risk-based capital consists of core capital plus the general allowance for loan losses.

Under the prompt corrective action rule issued by the federal banking authorities, an institution must have a leverage ratio of 4% or greater, a tier 1 capital ratio of 4% or greater and a total risk-based capital ratio of 8% or greater in order to be considered adequately capitalized. The Bank was in compliance with these requirements at December 31, 2014.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 2 – Mutual Holding Company Reorganization and Regulatory Matters (Continued)

The following table presents information about the Bank’s capital levels at the dates presented:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of December 31, 2014:						
Total capital (to risk-weighted assets)	$87,572	22.82%	$ ≥30,694	≥8.00%	$ ≥38,368	≥10.00 %
Tier 1 capital (to risk-weighted assets)	83,756	21.83	≥15,347	≥4.00	≥23,021	≥ 6.00
Core (Tier 1) capital (to adjusted total assets)	83,756	16.79	≥19,954	≥4.00	≥24,943	≥ 5.00
Tangible capital (to adjusted total assets)	83,756	16.79	≥ 7,483	≥1.50	≥ —	≥ —
As of December 31, 2013:						
Total capital (to risk-weighted assets)	$83,496	24.17%	$ ≥27,638	≥8.00%	$ ≥34,547	≥10.00 %
Tier 1 capital (to risk-weighted assets)	79,481	23.01	≥13,819	≥4.00	≥20,728	≥ 6.00
Core (Tier 1) capital (to adjusted total assets)	79,481	18.05	≥17,610	≥4.00	≥22,013	≥ 5.00
Tangible capital (to adjusted total assets)	79,481	18.05	≥ 6,604	≥1.50	≥ —	≥ —

Based on the most recent notification by the FDIC, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. There have been no conditions or events that have occurred since notification that management believes have changed the Bank’s category.

In July 2013, the FDIC approved new rules on regulatory capital applicable to banks, implementing Basel III. Most banking organizations were required to apply the new capital rules on January 1, 2015. The final rules set a new common equity tier 1 requirement and higher minimum tier 1 requirements for all banking organizations. The rules also place limits on capital distributions and certain discretionary bonus payments if a banking organization does not maintain a buffer of common equity tier 1 capital above minimum capital requirements. The rules revise the prompt corrective action framework to incorporate the new regulatory capital minimums. The rules also enhance risk sensitivity and address weaknesses identified over recent years with the measure of risk-weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with section 939A of the Dodd-Frank Act. Based on our capital levels and balance sheet composition at December 31, 2014, we believe implementation of the new rules will not have a material impact on our capital needs.

Note 3 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 3 - Financial Instruments with Off-Balance Sheet Risk (Continued)

	December 31, 2014	December 31, 2013
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$16,188	$22,142
Construction loans in process	32,917	10,643
Stand-by letters of credit	1,583	193
Commitments to fund unused lines of credit:		
Commercial and industrial lines	34,600	30,054
Multi-family real estate equity lines	2,686	5,011
Consumer lines	118	131
	$88,092	$68,174

Commitments to extend credit are legally binding agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the borrower.

Note 4 - Securities Available for Sale

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$34	$ 1	$ —	$ 35
Federal National Mortgage Association	5	—	—	5
	$39	$ 1	$ —	$ 40

December 31, 2013
(In Thousands)

Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$63	$2	$—	$65
Federal National Mortgage Association	47	1	—	48
	$110	$3	$—	$113

There were no sales of securities available for sale during the years ended December 31, 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 4 - Securities Available for Sale (Continued)

Contractual final maturities of mortgage-backed securities were as follows:

	December 31, 2014	
	Amortized Cost	**Fair Value**
	(In Thousands)	
Due after five but within ten years	$ 6	$ 6
Due after ten years	33	34
	$ 39	$ 40

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

Note 5 - Securities Held to Maturity

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities - residential:				
Government National Mortgage Association	$5,065	$ 159	$ —	$ 5,224
Federal Home Loan Mortgage Corporation	186	6	—	192
Federal National Mortgage Association	128	3	—	131
Collateralized mortgage obligations - GSE	1,216	42	—	1,258
	$6,595	$ 210	$ —	$ 6,805

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities - residential:				

Government National Mortgage Association	$6,426	$ 215	$ —	$ 6,641
Federal Home Loan Mortgage Corporation	238	7	—	245
Federal National Mortgage Association	155	6	—	161
Collateralized mortgage obligations - GSE	1,624	67	—	1,691
Other	1	—	—	1
	$8,444	$ 295	$ —	$ 8,739

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 5 - Securities Held to Maturity (Continued)

Contractual final maturities of mortgage-backed securities were as follows at December 31, 2014:

	2014 Amortized Cost	Fair Value
	(In Thousands)	
Due after one but within five years	$67	$ 69
Due after five but within ten years	156	159
Due after ten years	6,372	6,577
	$6,595	$ 6,805

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

Note 6 - Loans Receivable and the Allowance for Loan Losses

	December 31, 2014	2013
	(In Thousands)	
Residential real estate:		
One-to-four family	$13,314	$11,752
Multi-family	188,017	188,923
Mixed-use	61,546	50,467
Total residential real estate	262,877	251,142
Non-residential real estate	82,622	81,985
Construction	46,607	6,568
Commercial and industrial	34,407	31,345
Consumer	142	161
Total Loans	426,655	371,201
Allowance for loan losses	(3,816)	(4,015)
Deferred loan costs, net	606	639
	$423,445	$367,825

Loans serviced for the benefit of others totaled approximately $6,506,000 and $6,623,000 at December 31, 2014 and 2013, respectively. The value of mortgage servicing rights was not material at December 31, 2014 and 2013.

The Company had no loans to related parties at December 31, 2014 and 2013. In addition, the Company did not originate any loans to related parties in 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2014:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	$2,556	$896	$97	$456	$—	$10	$4,015
Charge-offs	(740)	(41)	—	—	—	—	(781)
Recoveries	225	565	—	—	—	—	790
Provision (Credit)	(18)	(728)	395	38	—	105	(208)
Ending balance	$2,023	$692	$492	$494	$—	$115	$3,816
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—
Ending balance: collectively evaluated for impairment	$2,023	$692	$492	$494	$—	$115	$3,816
Loans receivable:							
Ending balance	$262,877	$82,622	$46,607	$34,407	$142	$—	$426,655
Ending balance: individually evaluated for impairment	$5,367	$8,697	$—	$2,555	$—	$—	$16,619
Ending balance: collectively evaluated for impairment	$257,510	$73,925	$46,607	$31,852	$142	$—	$410,036

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2013:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	$3,216	$996	$—	$434	$—	$—	$4,646
Charge-offs	—	(105)	—	—	—	—	(105)
Recoveries	24	4	—	—	—	—	28
Provision (Credit)	(684)	1	97	22	—	10	(554)
Ending balance	$2,556	$896	$97	$456	$—	$10	$4,015
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—
Ending balance: collectively evaluated for impairment	$2,556	$896	$97	$456	$—	$10	$4,015
Loan receivables:							
Ending balance	$251,142	$81,985	$6,568	$31,345	$161	$—	$371,201
Ending balance: individually evaluated for impairment	$8,629	$11,488	$—	$—	$—	$—	$20,117
Ending balance: collectively evaluated for impairment	$242,513	$70,497	$6,568	$31,345	$161	$—	$351,084

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of our impaired loans.

As of and for the Year Ended December 31, 2014:

2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	$5,367	$ 5,709	$ —	$ 7,846	$ 205
Non-residential real estate	8,697	11,714	—	10,766	397
Commercial and industrial	2,555	2,555	—	1,521	—
	16,619	19,978	—	20,133	602
With an allowance recorded	—	—	—	—	—
Total:					
Residential real estate-Multi-family	5,367	5,709	—	7,846	205
Non-residential	8,697	11,714	—	10,766	397
Commercial and industrial	2,555	2,555	—	1,521	—
	$16,619	$ 19,978	$ —	$ 20,133	$ 602

As of and for the Year Ended December 31, 2013:

2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	$8,629	$ 9,259	$ —	$ 9,507	$ 469
Non-residential real estate	11,488	14,739	—	10,748	87

Commercial and industrial	—	—	—	1,167	49
	20,117	23,998	—	21,422	605
With an allowance recorded	—	—	—	—	—
Total:					
Residential real estate-Multi-family	8,629	9,259	—	9,507	469
Non-residential	11,488	14,739	—	10,748	87
Commercial and industrial	—	—	—	1,167	49
	$ 20,117	$ 23,998	$ —	$ 21,422	$ 605

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following table sets forth the composition of our nonaccrual loans at the dates indicated.

Loans Receivable on Nonaccrual Status as of December 31:

	2014	2013
	(In Thousands)	
Residential real estate:		
Multi-family	$689	$—
Mixed-use	453	2,210
Non-residential real estate	659	2,372
Commercial and industrial loans	2,555	84
	$4,356	$4,666

During the years ended December 31, 2014 and 2013, the Company recognized interest income of approximately $36,000 and $98,000, respectively, on the non-accrual loans. Interest income that would have been recorded had the loans been on the accrual status would have amounted to approximately $220,000 and $253,000 for the years ended December 31, 2014 and 2013, respectively. The Company is not committed to lend additional funds to borrowers whose loans have been placed on the non-accrual status.

The following table provides information about delinquencies in our loan portfolio at the dates indicated.

Age Analysis of Past Due Loans as of December 31, 2014:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	$—	$ —	$ —	$ —	$13,314	$ 13,314	$ —

Multi-family	—	—	689	689	187,328	188,017	—
Mixed-use	—	453	—	453	61,093	61,546	—
Non-residential real estate	—	—	659	659	81,963	82,622	—
Construction loans	—	—	—	—	46,607	46,607	—
Commercial and industrial loans	—	—	2,555	2,555	31,852	34,407	—
Consumer	—	—	—	—	142	142	—
	$—	$ 453	$ 3,903	$ 4,356	$422,299	$ 426,655	$ —

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

Age Analysis of Past Due Loans as of December 31, 2013:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	$—	$ —	$ —	$ —	$ 11,752	$ 11,752	$ —
Multi-family	—	—	—	—	188,923	188,923	—
Mixed-use	—	2,210	—	2,210	48,257	50,467	—
Non-residential real estate	—	—	2,372	2,372	79,613	81,985	—
Construction loans	—	—	—	—	6,568	6,568	—
Commercial and industrial loans	—	—	—	—	31,345	31,345	—
Consumer	—	—	—	—	161	161	—
	$—	$ 2,210	$ 2,372	$ 4,582	$ 366,619	$ 371,201	$ —

The following tables provide certain information related to the credit quality of our loan portfolio.

Credit Risk Profile by Internally Assigned Grade as of December 31, 2014:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
	(In Thousands)					
Grade:						
Pass	$ 261,501	$ 75,063	$ 46,607	$ 31,352	$ 142	$ 414,665
Special Mention	235	815	—	500	—	1,550
Substandard	1,141	6,744	—	2,555	—	10,440
	$ 262,877	$ 82,622	$ 46,607	$ 34,407	$ 142	$ 426,655

Credit Risk Profile by Internally Assigned Grade as of December 31, 2013:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
	(In Thousands)					
Grade:						
Pass	$248,932	$ 71,659	$ 6,568	$ 25,733	$ 161	$353,053
Special Mention	—	—	—	5,612	—	5,612
Substandard	2,210	10,326	—	—	—	12,536
	$251,142	$ 81,985	$ 6,568	$ 31,345	$ 161	$371,201

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

There were no loans modified that were deemed troubled debt restructuring during the year ended December 31, 2014. At December 31, 2014, none of the loans that were modified during the previous twelve months had defaulted during the year ended December 31, 2014.

The following table shows the breakdown of loans modified during the year ended December 31, 2013:

	2013 (Dollars in Thousands)		
(dollars in thousands)	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Real estate loans:			
Multi-family	1	$ 307	$ 307
Non-residential	3	3,253	3,253
	4	$ 3,560	$ 3,560

The multi-family mortgage loan had an original interest rate of 6.75% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payment to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date. The loan was paid-off on October 8, 2013.

Two non-residential mortgage loans had an original rate of 6.25% with an amortization of 25 years. The Company reduced the interest rate and converted the monthly payments to interest only for twenty months and then amortizing for 30 years, with a balloon payment after approximately five and one-half years from the modification date.

One non-residential mortgage loan had an original interest rate of 4.75% with an amortization of 30 years. The Company reduced the interest rate and converted the monthly payments to interest only for nineteen months and then amortizing for 30 years, with a balloon payment after two years from the modification date.

As of December 31, 2013, none of the loans that were modified during the previous twelve months had defaulted during the year ended December 31, 2013.

Note 7 - Premises and Equipment, Net

Premises and equipment at December 31 are summarized as follows:

	2014	2013
	(In Thousands)	
Land	$2,415	$2,415
Buildings and improvements	13,291	13,233
Leasehold improvements	638	638
Furnishings and equipment	6,786	6,666
	23,130	22,952
Accumulated depreciation and amortization	(11,412)	(10,718)
	$11,718	$12,234

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 8 - Accrued Interest Receivable, Net

Accrued interest receivable, net at December 31 is summarized as follows:

	2014	2013
	(In Thousands)	
Loans receivable	$1,771	$1,531
Securities	19	25
	1,790	1,556
Allowance for uncollected interest	(337)	(289)
	$1,453	$1,267

Note 9 - Goodwill and Intangible Assets

Goodwill and intangible assets at December 31 are summarized as follows:

	2014	2013
	(In Thousands)	
Goodwill	$749	$749
Customer relationships intangible	284	345
	$1,033	$1,094

The Company did not identify any impairment of goodwill and intangible assets during the year ended December 31, 2014 and recognized a goodwill impairment loss of $334,000 during the year ended December 31, 2013, resulting in a write-down of goodwill to $749,000 as of December 31, 2013. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel. Amortization expense of customer relationships intangible was $61,000 and $61,000 for the years ended December 31, 2014 and 2013, respectively. Scheduled amortization for each of the next five years and thereafter is as follows (in thousands):

2015	$61
2016	61
2017	61
2018	61
2019	40

Note 10 - Real Estate Owned ("REO")

The Company owned five foreclosed properties valued at approximately $8,733,000 at December 31, 2014 consisting of an office building located in New Jersey, an office building located in Pennsylvania, a mixed-use property located in Massachusetts, a building housing auto repair and auto rental facilities located in Massachusetts, and a multi-family property located in Connecticut. All the properties were acquired through foreclosures during the year ended December 31, 2014, except for the office building located in New Jersey that was acquired through a foreclosure in 2012. Further declines in real estate values may result in impairment charges in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. REO expense amounted to $486,000 during the year ended December 31, 2014. The multi-family property located in Connecticut with a balance of $115,000 at December 31, 2014 was subsequently sold in February 2015 at a gain of $5,000.

The Company owned one foreclosed property valued at approximately $3,985,000 at December 31, 2013 consisting of an office building located in New Jersey. REO expense amounted to $425,000 during the year ended December 31, 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 11 - Deposits

	December 31, 2014			2013		
	Amount	Weighted Average Interest Rate		Amount	Weighted Average Interest Rate	
	(Dollars in Thousands)					
Demand deposits:						
Non-interest bearing	$37,088	0.00	%	$28,310	0.00	%
NOW and money market	72,797	0.48	%	60,334	0.36	%
Total	109,885	0.32	%	88,644	0.24	%
Savings accounts	82,976	0.56	%	85,156	0.55	%
Certificates of deposit maturing in:						
One year or less	57,805	0.88	%	62,987	1.07	%
After one to two years	58,693	1.50	%	23,303	1.25	%
After two to three years	39,477	2.28	%	20,225	2.14	%
After three to four years	12,356	1.72	%	36,329	2.35	%
After four years	12,860	1.92	%	8,565	1.80	%
Total	181,191	1.52	%	151,409	1.59	%
	$374,052	0.95	%	$325,209	0.95	%

As of December 31, 2014 and 2013, certificates of deposits equal to or in excess of $100,000 totaled approximately $121,348,000 and $89,699,000, respectively.

The Company had $986,000 at December 31, 2014 and $980,000 at December 31, 2013 in Certificate of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits that were fully-insured brokered deposits as defined in the FDIC call report instructions. The CDARS certificates of deposits were obtained from one retail depositor and then transferred into the CDARS Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Network as reciprocal deposits.

Interest expense on deposits consists of the following:

	Years Ended December 31,	
	2014	2013
	(In Thousands)	

Demand deposits	$ 251	$ 219
Savings accounts	469	445
Certificates of deposit	2,567	2,287
	$ 3,287	$ 2,951

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 12 – Federal Home Loan Bank of New York (“FHLB”) Advances

	December 31, 2014			2013		
	Amount	Weighted Average Interest Rate		Amount	Weighted Average Interest Rate	
	(Dollars in Thousands)					
Advances maturing in:						
One year or less	$27,000	0.37	%	$16,000	1.45	%
After one to two years	3,000	1.03	%	2,000	0.68	%
After two to three years	—	0.00	%	3,000	1.03	%
	$30,000	0.44	%	$21,000	1.32	%

At December 31, 2014, none of the above advances were subject to early call or redemption features.

At December 31, 2014, the advances were secured by a pledge of the Company’s investment in the capital stock of the FHLB and a blanket assignment of the Company’s otherwise unpledged qualifying mortgage loans.

At December 31, 2014, the Company had the ability to borrow $83.2 million, net of $30.0 million in outstanding advances, from the FHLB and $8.0 million from Atlantic Community Bankers Bank (“ACBB”).

Note 13 - Income Taxes

The Bank qualifies as a savings institution under the provisions of the Internal Revenue Code and was, therefore, prior to January 1, 1996, permitted to deduct from taxable income an allowance for bad debts based upon eight percent of taxable income before such deduction, less certain adjustments. Retained earnings at December 31, 2014 and 2013, include approximately $4.1 million of such bad debt deductions which, in accordance with U.S. GAAP is considered a permanent difference between the book and income tax basis of loans receivable, and for which deferred income taxes have not been provided. If such amount is used for purposes other than for bad debt losses, including distributions in liquidation, it will be subject to income tax at the then current rate.

The components of provision for income taxes are summarized as follows:

	Years Ended December 31,	
	2014	2013
	(In Thousands)	

Current tax expense	$ 714	$ 189
Deferred tax expense	73	211
	$ 787	$ 400

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 13 - Income Taxes (Continued)

The following table presents a reconciliation between the reported income taxes and the income taxes, which would be computed by applying the existing federal income tax rate of 34% to income before taxes:

	Years Ended December 31,	
	2014	2013
	(Dollars In Thousands)	
Federal income tax at statutory rates	$ 845	$ 523
State and city tax, net of federal income tax effect	176	132
Non-taxable income on bank owned life insurance	(212)	(217)
Other	(22)	(38)
	$ 787	$ 400
Effective Income Tax Rate	31.7 %	26.0 %

The tax effects of significant items comprising the net deferred tax asset are as follows:

	December 31,	
	2014	2013
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$1,585	$1,742
State operating loss carryover	220	320
Reserve for uncollected interest	135	116
Depreciation	137	95
Benefit plans	1,540	1,387
Accumulated other comprehensive loss - DRP	21	52
Goodwill	—	15
Other	59	54
Total Deferred Tax Assets	3,697	3,781
Deferred tax liability:		
Unrealized gain on securities available for sale	—	1
Goodwill	20	—
Total Deferred Tax Liabilities	20	1
	$3,677	$3,780

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 14 - Other Non-Interest Expenses

The following is an analysis of other non-interest expenses:

	Years Ended December 31, 2014	2013
	(In Thousands)	
Audit and accounting	$ 544	$ 440
Telephone	477	392
Service contracts	457	402
Directors compensation	403	461
Legal fees	375	630
Other	312	350
Director, officer, and employee expenses	262	332
Insurance	232	222
Consulting expense	229	378
Recruiting expense	128	96
Office supplies and stationary	66	77
	$ 3,485	$ 3,780

Note 15 - Benefits Plans

Outside Director Retirement Plan ("DRP")

The DRP is an unfunded non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The following table sets forth the funded status of the DRP and components of net pension periodic expense measured as of December 31:

	Years Ended December 31, 2014	2013
	(Dollars In Thousands)	
Projected benefit obligation – beginning	$ 1,041	$ 1,202
Service cost	73	73
Interest cost	40	41
Actuarial gain	(59)	(278)
Prior service cost	—	3
Projected benefit obligation – ending	$ 1,095	$ 1,041

Funded status – accrued liability included in accounts payable and accrued expenses	$ 1,095	$ 1,041
Accumulated benefit obligation	$ 1,037	$ 983
Discount rate	4.12 %	4.45 %
Salary increase rate	2.00 %	2.00 %

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 15 - Benefits Plans (Continued)

Outside Director Retirement Plan ("DRP") (Continued)

	Years Ended December 31, 2014	2013
	(Dollars In Thousands)	
Net periodic pension expense:		
Service cost	$73	$73
Interest cost	40	41
Actuarial loss recognized	(2)	36
Prior service cost recognized	21	21
Total net periodic pension expense included in other non-interest expenses	$132	$171
Discount rate	4.12%	4.45%
Salary increase rate	2.00%	2.00%

Benefit payments, which reflect expected future service as appropriate, are expected to be paid for the years ending December 31 as follows (in thousands):

2015	$90
2016	90
2017	90
2018	90
2019	90
2020 to 2024	585

Supplemental Executive Retirement Plan ("SERP")

The SERP is a non-contributory defined benefit plan that covers certain officers of the Company.

Under the SERP, each of these individuals will be entitled to receive upon retirement an annual benefit paid in monthly installments equal to 50% of his average base salary in the three-year period preceding retirement. Each individual may also retire early and receive a reduced benefit upon the attainment of certain age and years of service combination. Additional terms related to death while employed, death after retirement, disability before retirement and termination of employment are fully described within the plan document. The benefit payment term is the greater of 15 years or the executives remaining life. No benefits are expected to be paid during the next ten years.

During the years ended December 31, 2014 and 2013, expenses of $191,000 and income of $143,000, respectively, were recorded for this plan and are reflected in the Consolidated Statements of Operations under Salaries and Employee Benefits. At December 31, 2014 and 2013, a liability for this plan of $1,989,000 and $1,799,000, respectively, is included in the Consolidated Statements of Financial Condition under Accounts Payable and Accrued Expenses. The former Chief Financial Officer, who resigned and left the Company effective July 24, 2013, is no longer participating in the SERP. In connection with his resignation, the Company reversed $221,000 in accrued liability and expenses and $88,000 in deferred taxes and tax expenses during 2013.

401(k) Plan

The Company maintains a 401(k) plan for all eligible employees. Participants are permitted to contribute from 1% to 15% of their annual compensation up to the maximum permitted under the Internal Revenue Code. The Company provided no matching contribution in 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 15 - Benefits Plans (Continued)

Employee Stock Ownership Plan ("ESOP")

In conjunction with the Company's initial public stock offering, the Bank established an ESOP for all eligible employees (substantially all full-time employees). The ESOP borrowed $5,184,200 from the Company and used those funds to acquire 518,420 shares of Company common stock at $10.00 per share. The loan from the Company carries an interest rate of 8.25% and is repayable in twenty annual installments through 2025. Each year, the Bank makes discretionary contributions to the ESOP equal to the principal and interest payment required on the loan from the Company. The ESOP may further pay down the principal balance of the loan by using dividends paid, if any, on the shares of Company common stock it owns. The balance remaining on the ESOP loan was $3,647,000 and $3,846,000 at December 31, 2014 and 2013, respectively.

Shares purchased with the loan proceeds serve as collateral for the loan and are held in a suspense account for future allocation among ESOP participants. As the loan principal is repaid, shares will be released from the suspense account and become eligible for allocation. The allocation among plan participants will be as described in the ESOP governing document.

ESOP shares initially pledged as collateral were recorded as unearned ESOP shares in the stockholders' equity section of the consolidated statement of financial condition. Thereafter, on a monthly basis over a 240 month period, approximately 2,160 shares are committed to be released and compensation expense is recorded equal to the shares committed to be released multiplied by the average closing price of the Company's stock during that month. ESOP expense during the years ended December 31, 2014 and 2013, totaled approximately $184,000 and $164,000, respectively. Dividends on unallocated shares, which totaled approximately $38,000 and $40,000 during 2014 and 2013, respectively, are recorded as a reduction of the ESOP loan. Dividends on allocated shares, which totaled approximately $24,000 and $22,000 during 2014 and 2013, respectively, are charged to retained earnings.

ESOP shares are summarized as follows:

	December 31,	
	2014	2013
Allocated shares	207,368	181,447
Shares committed to be released	25,921	25,921
Unearned shares	285,131	311,052
Total ESOP Shares	518,420	518,420
Less allocated shares distributed to former or retired employees	(35,051)	(23,231)
Total ESOP Shares Held by Trustee	483,369	495,189
Fair value of unearned shares	$2,059,000	$2,433,000

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 16 - Commitments and Contingencies

Lease Commitments

Rentals under operating leases for certain branch offices and land amounted to $460,000 and $576,000 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, the minimum rental commitments under all non-cancelable leases with initial or remaining terms of more than one year are as follows (in thousands):

Year ending December 31,	
2015	$437
2016	198
2017	98
2018	77
2019	16
Thereafter	1,058
	$1,884

Other

On October 31, 2011, a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the “Court”), against the MHC and each of the directors of the Company and the MHC as defendants, and against the Company as a nominal defendant. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a “second-step” conversion of the MHC. As relief, the complaint requested, among other things, that the Company’s board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company’s motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell also asserted claims against the MHC, as majority shareholder of the Company.

The defendants and the Company filed a motion to dismiss on February 1, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company’s directors and the MHC to proceed. The defendants and the Company appealed that decision to the Supreme Court of the State of New York’s Appellate Division, First Department, (“Appellate Division”) on November 27, 2013. On June 12, 2014, the Appellate Division affirmed the Court’s decision.

Additionally, on February 21, 2014, Stilwell moved to disqualify the Company's counsel, which represents the Company, the individual directors, and MHC in this litigation. On December 30, 2014, the New York Supreme Court Appellate Division, First Department, affirmed the Court's decision to deny Stilwell's disqualification motion.

The parties have completed fact discovery and expert discovery. On January 14, 2015, Stilwell filed a certification of readiness for trial. Motions for summary judgment were filed by the parties on March 3, 2015. Oppositions to summary judgment are due March 31, 2015. Replies in support of summary judgment are due April 21, 2015.

The Company is also subject to claims and litigation that arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company in connection with such claims and litigation, it is the opinion of management that the disposition or ultimate determination of such claims and litigation will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company has to record at fair value other assets and liabilities on a non-recurring basis, such as securities held to maturity, impaired loans and other real estate owned. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2014	(In Thousands)			
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$35	$ —	$ 35	$ —
Federal National Mortgage Association	5	—	5	—
Total	40	—	40	—
Nonrecurring:				
Real estate owned	2,137	—	—	2,137

December 31, 2013:				
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$65	$ —	$ 65	$ —
Federal National Mortgage Association	48	—	48	—
Total	113	—	113	—
Nonrecurring:				
Impaired loans	789	—	—	789

For real estate owned, fair value is generally determined through independent appraisals or fair value estimations of the underlying properties which generally include various Level 3 inputs which are not identifiable. The appraisals or fair value estimation may be adjusted by management for qualitative reasons and estimated liquidation expenses. Management's assumptions may include consideration of location and occupancy of the property and current economic conditions. Subsequently, as these properties are actively marketed, the estimated fair values may be periodically adjusted through incremental subsequent write-downs to reflect decreases in estimated values resulting from sales price observations and the impact of changing economic and market conditions.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

At December 31, 2014 to account for the aforementioned factors, adjustments to appraisal or fair values for real estate owned ranged from 1.3% to 20.0%.

A loan is considered impaired when, based upon current information and events; it is probable that the Company will be unable to collect all scheduled payments in accordance with the contractual terms of the loan. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves, a component of the allowance for loan losses or through partial charge-offs, and as such are carried at the lower of cost or the fair value. Estimates of fair value of the collateral are determined based on a variety of information, including available valuations from certified appraisers for similar assets, present value of discounted cash flows and inputs that are estimated based on commonly used and generally accepted industry liquidation advance rates and estimates and assumptions developed by management. The appraisals may be adjusted by management for estimated liquidation expenses and qualitative factors such as economic conditions. If real estate is not the primary source of repayment, present value of discounted cash flows and estimates using generally accepted industry liquidation advance rates are utilized. The liquidation expenses and other appraisal adjustments of the impaired loans at December 31, 2013 was 3.0%. Due to the multitude of assumptions, many of which are subjective in nature, and the varying inputs and techniques used by appraisers, the Company recognizes that valuations could differ across a wide spectrum of valuation techniques employed and accordingly, fair value estimates for impaired loans are classified as Level 3.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2014 and 2013:

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction, other loans secured by real estate, commercial and industrial loans, and consumer. Certain types, such as commercial and industrial loans and consumer loans, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by discounting the estimated future cash flows from the remaining carrying value at a market rate.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

Loans (Continued)

For impaired loans which the Company has measured and recorded impairment generally based on the fair value of the loan's collateral, fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Investments in Restricted Stocks

The carrying amount of the FHLB of New York and ACBB stocks approximates their fair value and considers the limited marketability of these securities.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Certificates of deposits are segregated by type, size, and remaining maturity. The fair value of certificates of deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market.

FHLB of New York Advances

The fair value of the FHLB advances is estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At December 31, 2014 and 2013, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

The carrying amounts and estimated fair value of our financial instruments are as follows:

			Fair Value at December 31, 2014		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 34,010	$ 34,010	$ —	$ 34,010	$ —
Certificates of deposit	150	150	—	150	—
Securities available for sale	40	40	—	40	—
Securities held to maturity	6,595	6,805	—	6,805	—
Loans receivable	423,445	429,467	—	—	429,467
Investments in restricted stock	1,933	1,933	—	1,933	—
Accrued interest receivable	1,453	1,453	—	1,453	—
Financial Liabilities					
Deposits	374,052	377,276	—	377,276	—
FHLB of New York advances	30,000	29,970	—	29,970	—
Accrued interest payable	3	3	—	3	—

			Fair Value at December 31, 2013		
			Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs

(In thousands)	Carrying Amount	Fair Value	for Identical Assets (Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$31,531	$ 31,531	$—	$ 31,531	$ —
Certificates of deposit	2,142	2,142	—	2,142	—
Securities available for sale	113	113	—	113	—
Securities held to maturity	8,444	8,739	—	8,739	—
Loans receivable	367,825	374,820	—	—	374,820
Investments in restricted stock	1,594	1,594	—	1,594	—
Accrued interest receivable	1,267	1,267	—	1,267	—
Financial Liabilities:					
Deposits	325,209	328,654	—	328,654	—
FHLB of New York advances	21,000	21,016	—	21,016	—
Accrued interest payable	2	2	—	2	—

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 – Parent Company Only Financial Information

The following are the condensed financial statements for Northeast Community Bancorp (Parent company only) as of December 31, 2014 and 2013 and for the years then ended.

Condensed Statements of Financial Condition

	December 31,	
	2014	2013
	(In Thousands)	
Assets		
Cash and due from banks	$9,807	$12,492
Certificates of deposits	50	1,046
Investment in subsidiary	88,878	86,957
Loans (1)	1,479	—
ESOP loan receivable	3,647	3,847
Other assets	99	8
Total Assets	$103,960	$104,350
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$150	$182
Total Liabilities	150	182
Total Stockholders' Equity	103,810	104,168
Total Liabilities and Stockholders' Equity	$103,960	$104,350

(1) Represents participation loans purchased from the Bank.

Condensed Statements of Operations and Comprehensive Income

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Interest income – interest- earning deposits	$ 13	$ 6
Interest income – ESOP loan	318	332
Operating expenses	(324)	(260)
Income before Income Tax Expense and Equity in Undistributed Earnings of Subsidiary	7	78

Income tax expense	3	24
Income before Equity in Undistributed Earnings of Subsidiary	4	54
Equity in undistributed earnings of subsidiary	1,693	1,083
Net Income	$ 1,697	$ 1,137
Comprehensive Income	$ 1,743	$ 1,336

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 – Parent Company Only Financial Information (Continued)

Statements of Cash Flow

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	$ 1,697	$ 1,137
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed earnings (loss) of subsidiary	(1,693)	(1,083)
(Increase) decrease in other assets	(91)	4
Decrease in other liabilities	(25)	(10)
Net Cash (Used in) Provided by Operating Activities	(112)	48
Cash Flows from Investing Activities		
Repayment of ESOP loan	200	184
Purchase of loans	(1,479)	—
Net maturity (purchases) of certificates of deposit	996	(747)
Net Cash Used in Investing Activities	(283)	(563)
Cash Flows from Financing Activities		
Cash dividends paid	(582)	(453)
Purchase of treasury stock	(1,708)	(579)
Net Cash Used in Financing Activities	(2,290)	(1,032)
Net Decrease in Cash and Cash Equivalents	(2,685)	(1,547)
Cash and Cash Equivalents - Beginning	12,492	14,039
Cash and Cash Equivalents - Ending	$ 9,807	$ 12,492

Note 19 – Related Party Transactions

In the normal course of business, the Company entered into deposit transactions with members of the Board of Directors and management. These transactions are entered into under the same terms as those for non-related parties and are considered immaterial to the Company’s consolidated financial statements. In addition, one member of the Board of Directors provides consulting services related to bank branching and the Community Reinvestment Act and another member of the Board of Directors provides legal services to the Company. Fees paid for the consulting and legal services totaled $15,200 and $7,250, respectively, for the year ended December 31, 2014 and $60,000 and $2,600, respectively, for the year ended December 31, 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 20 – Reclassification Out of Accumulated Other Comprehensive Income

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income December 31,		Affected Line Item in the Consolidated Statements of Comprehensive Income (Loss)
	2014	2013	
	(In Thousands)		
Amortization of defined benefit pension items:			
Prior service costs (1)	$ 21	$ 21	Salary and employee benefits
Unrecognized loss (1)	(2)	36	Salary and employee benefits
	19	57	Total before tax
	(8)	(22)	Income tax benefit
Total reclassifications for the period	$ 11	$ 35	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 15 for additional details).

Note 21 - Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors,* which clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption of this standard effective April 1, 2017 is not expected to have a material impact on the Company’s consolidated financial statements.

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