BCB BANCORP INC
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 0-50275

BCB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

New Jersey	26-0065262

(State or other jurisdiction of	(IRS Employer
incorporation or organization)	I.D. No.)
104-110 Avenue C Bayonne, New Jersey (Address of principal executive offices)	07002 (Zip Code)

(201) 823-0700

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 4, 2014, BCB Bancorp, Inc., had 8,373,286 shares of common stock, no par value, outstanding.

BCB BANCORP INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In Thousands, Except Share and Per Share Data, Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and amounts due from depository institutions	$ 8,776	$ 10,847
Interest-earning deposits	15,553	18,997
Total cash and cash equivalents	24,329	29,844
Interest-earning time deposits	990	990
Securities available for sale	-	1,104
Securities held to maturity, fair value $110,750 and $115,158, respectively	107,766	114,216
Loans held for sale	3,256	1,663
Loans receivable, net of allowance for loan losses of $14,952 and $14,342, respectively	1,096,232	1,020,344
Federal Home Loan Bank of New York stock, at cost	9,284	7,840
Premises and equipment, net	13,420	13,853
Accrued interest receivable	4,086	4,157
Other real estate owned	3,295	2,227
Deferred income taxes	10,970	9,942
Other assets	4,747	1,779
Total Assets	$ 1,278,375	$ 1,207,959
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	$ 126,419	$ 107,613
Interest bearing deposits	883,122	861,057
Total deposits	1,009,541	968,670
Short-term Debt	45,500	18,000

Long-term Debt	110,000	110,000
Subordinated Debentures	4,124	4,124
Other Liabilities	6,355	7,105
Total Liabilities	1,175,520	1,107,899
STOCKHOLDERS' EQUITY		
Preferred stock: $0.01 par value, 10,000,000 shares authorized, issued and outstanding 1,343 shares of series A and B 6% noncumulative perpetual preferred stock (liquidation value $10,000 per share)	-	-
Additional paid-in capital preferred stock	13,326	12,556
Common stock; $0.064 stated value; 20,000,000 shares authorized, issued 10,901,627 and 10,861,129 shares at June 30, 2014 and December 31, 2013, respectively outstanding 8,371,364 shares and 8,331,750 shares, respectively	697	694
Additional paid-in capital common stock	92,395	92,064
Retained earnings	26,008	23,710
Accumulated other comprehensive (loss) income	(466)	129
Treasury stock, at cost, 2,530,263 and 2,529,379 shares, respectively	(29,105)	(29,093)
Total Stockholders' Equity	102,855	100,060
Total Liabilities and Stockholders' Equity	$ 1,278,375	$ 1,207,959

See accompanying notes to unaudited consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In Thousands, except for per share amounts, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Loans, including fees	$ 13,881	$ 13,246	$ 27,562	$ 26,239
Investments, taxable	878	928	1,793	1,989
Investments, non-taxable	13	12	25	25
Other interest-earning assets	11	13	24	24
Total interest income	14,783	14,199	29,404	28,277
Interest expense:				
Deposits:				
Demand	127	107	248	210
Savings and club	91	91	182	177
Certificates of deposit	1,049	1,192	2,141	2,441
	1,267	1,390	2,571	2,828
Borrowed money	1,272	1,241	2,525	2,464
Total interest expense	2,539	2,631	5,096	5,292
Net interest income	12,244	11,568	24,308	22,985
Provision for loan losses	450	600	1,450	1,800
Net interest income after provision for loan losses	11,794	10,968	22,858	21,185
Non-interest income:				
Fees and service charges	528	479	1,032	903
Gain on sales of loans	230	227	1,007	346
Gain on sales of securities held to maturity	39	135	39	360
Gain on sale of securities available for sale	1,223	-	1,223	-
Other	18	40	37	56
Total non-interest income	2,038	881	3,338	1,665

Non-interest expense:				
Salaries and employee benefits	5,042	3,719	9,503	7,186
Occupancy expense of premises	964	866	1,944	1,679
Equipment	1,341	1,282	2,698	2,448
Professional fees	533	568	1,023	1,027
Director fees	194	168	362	336
Regulatory assessments	282	278	534	543
Advertising	266	178	440	280
Other real estate owned, net	32	(32)	40	(116)
Other	812	562	1,478	1,109
Total non-interest expense	9,466	7,589	18,022	14,492
Income before income tax provision	4,366	4,260	8,174	8,358
Income tax provision	1,736	1,707	3,309	3,395
Net Income	$ 2,630	$ 2,553	$ 4,865	$ 4,963
Preferred stock dividends	204	130	397	260
Net Income available to common stockholders	$ 2,426	$ 2,423	$ 4,468	$ 4,703
Net Income per common share-basic and diluted				
Basic	$ 0.29	$ 0.29	$ 0.54	$ 0.56
Diluted	$ 0.29	$ 0.29	$ 0.53	$ 0.56
Weighted average number of common shares outstanding				
Basic	8,353	8,411	8,346	8,446
Diluted	8,401	8,417	8,396	8,450

See accompanying notes to unaudited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In Thousands, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	$ 2,630	$ 2,553	$ 4,865	$ 4,963
Other comprehensive income, net of tax:				
Unrealized gains on available-for-sale securities:				
Unrealized holding gains arising during the period (a)	-	142	126	249
Less: reclassification adjustment for gains included in net income (b) (d)	(721)	-	(721)	-
Benefit plans (c)	-	11	-	22
Other comprehensive income	(721)	153	(595)	271
Comprehensive income	$ 1,909	$ 2,706	$ 4,270	$ 5,234

(a) Represents the net change of the unrealized gain on available-for-sale securities. Represents unrealized gains of $0, $239,000, $213,000, and $421,000, respectively, less deferred taxes of $0, $97,000, $87,000 and $172,000, respectively. The Statements of Income line items impacted by these amounts are gains on sales of securities and income tax provision.

(b) Represents the sale of available-for-sale securities during the three months ended June 30, 2014, for which unrealized gains were previously reported totaling $1.2 million, less deferred taxes of $498,000. No sales of available-for-sale securities occurred during the three months ended June 30, 2014 and the three months ended March 31, 2014 and 2013.

(c) Represents the net change of unrecognized loss included in net periodic pension cost. Represents a gross change of $0, $18,000, $0, and $36,000, respectively, less deferred taxes of $0, $7,000, $0, and $14,000, respectively. The Statements of Income line items impacted by these amounts are salaries and employee benefits and income tax provision.

(d) During the second quarter of 2013, one available for sale security was called at par for $1.0 million.

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

(In Thousands, except share and per share data, Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Beginning Balance at January 1, 2014	$ —	$ 694	$ 104,620	$ 23,710	$ (29,093)	$ 129	$ 100,060
Proceeds from issuance of Series B preferred stock	—	—	770	—	—	—	770
Exercise of Stock Options (116,584 shares)	—	3	305	—	—	—	308
Stock-based compensation expense	—	—	26	—	—	—	26
Treasury Stock Purchases (884 shares)	—	—	—	—	(12)	—	(12)
Dividends payable on Series A and Series B 6% noncumulative perpetual preferred stock	—	—	—	(397)	—	—	(397)
Cash dividends on common stock ($0.12 per share in February and $0.14 per share in May) declared	—	—	—	(2,170)	—	—	(2,170)
Net income	—	—	—	4,865	—	—	4,865
Other comprehensive income	—	—	—	—	—	(595)	(595)

Ending Balance at June 30, 2014	$ —	$ 697	$ 105,721	$ 26,008	$ (29,105)	$ (466)	$ 102,855

See accompanying notes to unaudited consolidated financial statements.

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BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In Thousands, Unaudited)

	Six Months Ended June 30, 2014	2013
Cash Flows from Operating Activities :		
Net Income	$ 4,865	$ 4,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	719	645
Amortization and accretion, net	(307)	604
Provision for loan losses	1,450	1,800
Deferred income tax (benefit)	(616)	(538)
Loans originated for sale	(11,458)	(11,909)
Proceeds from sale of loans originated for sale	10,412	9,314
Gain on sales of loans originated for sale	(1,007)	(346)
Gain on sales of other real estate owned	-	(123)
Fair value adjustment of other real estate owned	-	(110)
Gain on sales of securities held to maturity	(39)	(360)
Gain on sales of securities available for sale	(1,223)	-
Stock compensation expense	26	17
Decrease (increase) in interest receivable	71	(151)
(Increase) decrease in other assets	(2,968)	3,939
(Decrease) in accrued interest payable	(12)	(54)
(Decrease) increase in other liabilities	(738)	326
Net Cash (Used In) Provided by Operating Activities	(825)	8,017
Cash flows from investing activities:		
Proceeds from repayments and calls on securities held to maturity	8,717	29,012
Proceeds from call of securities available for sale	-	1,000
Purchases of securities held to maturity	(3,034)	(1,359)
Proceeds from sales of securities held to maturity	536	8,591
Proceeds from sales of securities available for sale	1,320	-
Proceeds from sales of other real estate owned	-	3,042
Proceeds from sale of participation loans held in portfolio	-	24,224
Participation loans sold held in portfolio		(24,224)
Purchases of loans	-	(2,334)
Net (Increase) in loans receivable	(77,369)	(19,194)
Additions to premises and equipment	(286)	(1,181)

Purchase/Redemption of Federal Home Loan Bank of New York stock, net	(1,444)	668
Net Cash (Used In) Provided By Investing Activities	(71,560)	18,245
Cash flows from financing activities:		
Net increase in deposits	40,871	11,207
Net change in short-term debt	27,500	(17,000)
Purchases of treasury stock	(12)	(1,257)
Cash dividend paid on common stock	(2,170)	(2,025)
Cash dividend paid on preferred stock	(397)	(130)
Net proceeds from Issuance of common stock	305	-
Net proceeds from Issuance of preferred stock	770	-
Exercise of stock options	3	12
Net Cash Provided by (Used In) Financing Activities	66,870	(9,193)
Net (Decrease) Increase In Cash and Cash Equivalents	(5,515)	17,069
Cash and Cash Equivalents-Beginning	29,844	34,147
Cash and Cash Equivalents-Ending	$ 24,329	$ 51,216
Supplementary Cash Flow Information:		
Cash paid during the year for:		
Income taxes	$ 6,744	$ 27
Interest	$ 5,108	$ 5,346
Non-cash items:		
Transfer of loans to other real estate owned	$ 1,068	$ 3,010
Reclassification of loans originated for sale to held to maturity	$ 460	$ 2,875

See accompanying notes to unaudited consolidated financial statements.

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BCB Bancorp Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the "Company") and the Company's wholly owned subsidiaries, BCB Community Bank (the "Bank"), BCB Holding Company Investment Company, BCB New York Asset Management, Inc. and Pamrapo Service Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. These results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2014 or any other future period. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2013, which are included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In preparing these consolidated financial statements, BCB Bancorp, Inc., evaluated the events and transactions that occurred between December 31, 2013, and the date these consolidated financial statements were issued.

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued ASU No. 2014-04, Receivable-Troubled Debt Restructurings by Creditors (Sub-Topic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. They clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Early adoption is permitted. Retrospective application is permitted. The Company does not believe this pronouncement, when adopted, will have a material impact on the Company's results of operations or financial position.

The Financial Accounting Standards Board ("FASB") has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU 2013-11 did not have a significant impact on the Company's financial condition, results of operations, or cash flows.

Note 2 – Reclassification

Certain amounts as of December 31, 2013 and the three and six month periods ended June 30, 2013 have been reclassified to conform to the current period’s presentation. These changes had no effect on the Company’s results of operations or financial position.

Note 3 – Pension and Other Postretirement Plans

The Company assumed, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan (“Pension Plan”), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the “Pension Plan” to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of service are not considered when computing an employee’s benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan (“SERP”) in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the “Normal Retirement Age”), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Periodic pension and SERP cost, which is recorded as part of salaries and employee benefits expense in our Consolidated Statements of Income, is comprised of the following. (In Thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Pension plan:				
Interest cost	$ 199	$ 98	$ 100	$ 196

Expected return on plan assets	(308)	(137)	(154)	(274)
Amortization of unrecognized loss	-	18	-	36
Net periodic pension cost	(109)	(21)	(54)	(42)
SERP plan:				
Interest cost	$ 10	$ 4	$ 5	$ 8
Net periodic postretirement cost	$ 10	$ 4	$ 5	$ 8

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Note 3 – Pension and Other Postretirement Plans (Continued)

The Company, under the plan approved by its shareholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of BCB Bancorp, Inc. pursuant to grants of stock options. Employees and directors of BCB Bancorp, Inc. and BCB Community Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. On March 7, 2014, a grant of 110,000 options was declared for members of the Board of Directors which vest at a rate of 10% per year, over ten years commencing on the first anniversary of the grant date. The exercise price was recorded as of the close of business on March 7, 2014 and a Form 4 was filed for each Director who received a grant with the Securities and Exchange Commission consistent with their filing requirements. On January 17, 2013, a grant of 130,000 options was declared for certain members of the Board of Directors. The exercise price was recorded as of the close of business on January 17, 2013 and a Form 4 was filed for each Director who received a grant with the Securities and Exchange Commission consistent with their filing requirements. During the third quarter of 2013, there were 29,928 stock options granted which vest immediately. The exercise price was recorded as of the close of business on August 7, 2013.

Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards’ respective requisite service periods. The fair values relating to all options granted are estimated using a Black-Scholes option pricing model. Expected volatilities are based on historical volatility of our stock and other factors, such as implied market volatility using this options expected term. The Company used the mid-point of the original vesting period and original option life to estimate the options’ expected term, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company recognizes compensation expense for the fair values of these option awards, which have graded vesting, on a straight-line basis over the requisite service period of these awards.

A summary of stock option activity, adjusted to retroactively reflect stock dividends, follows:

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2013	344,128	$ 8.93-18.41	$ 11.09
Options granted	110,000	13.32	13.32
Options exercised	(116,584)	8.93-11.84	11.56

Options forfeited	(13,569)	8.93-29.25	19.90
Options expired	(6,000)	29.25	
Outstanding at June 30, 2014	317,975	$ 8.93-15.65	$ 11.15

As of June 30, 2014, stock options which are granted and were exercisable totaled 59,975 stock options.

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to the 59,975 shares underlying unexercised options outstanding as of June 30, 2014 is $534,667 over a weighted average period of 9.09 years.

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Note 4 – Net Income per Common Share

Basic net income per common share is computed by dividing net income less dividends on preferred stock by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. Dilution is not applicable in periods of net loss. For the three and six months ended June 30, 2014 and 2013, the difference in the weighted average number of basic and diluted common shares was due solely to the effects of outstanding stock options. No adjustments to net income were necessary in calculating basic and diluted net income per share. For the three months ended June 30, 2014 and 2013, the weighted average number of outstanding options considered to be anti-dilutive were 31,044, and 343,252, respectively, and for the six months ended June 30, 2014 and 2013, the weighted average number of outstanding options considered to be anti-dilutive were 15,522 and 343,252, respectively.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	For the Three Months Ended June 30,					
	2014			2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except per share data)					
Net income available to common stockholders	$ 2,426			$ 2,423		
Basic earnings per share- Income available to Common stockholders	$ 2,426	8,353	$ 0.29	$ 2,423	8,411	$ 0.29

Effect of dilutive securities:						
Stock options	-	48		-	6	
Diluted earnings per share- Income available to Common stockholders	$ 2,426	8,401	$ 0.29	$ 2,423	8,417	$ 0.29

	For the Six Months Ended June 30,					
	2014			2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except per share data)					
Net income available to common stockholders	$ 4,468			$ 4,703		
Basic earnings per share- Income available to Common stockholders	$ 4,468	8,346	$ 0.54	$ 4,703	8,446	$ 0.56
Effect of dilutive securities:						
Stock options	-	50		-	4	
Diluted earnings per share- Income available to Common stockholders	$ 4,468	8,396	$ 0.53	$ 4,703	8,450	$ 0.56

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Note 5 – Securities Available for Sale

The following tables present the cost and gross unrealized gains and losses on securities available for sale as of June 30, 2014 and December 31, 2013:

	June 30, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	$ —	$ —	$ —	$ —

	December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Equity Securities-Financial Institutions	$ 97	$ 1,007	$ —	$ 1,104

Note 6 – Securities Held to Maturity

The following table presents by maturity the amortized cost and gross unrealized gains and losses on securities held to maturity as of June 30, 2014 and

December 31, 2013:

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Residential mortgage-backed securities:				
Due after one year through five years	$ 2,172	$ —	$ (6)	$ 2,166
Due after five years through ten years	4,017	33	(73)	3,977
Due after ten years	100,223	3,367	(412)	103,178
	106,412	3,400	(491)	109,321
Municipal obligations:				
Due after five to ten years	1,354	75	—	1,429
	$ 107,766	$ 3,475	$ (491)	$ 110,750

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

Due after one year through five years	$ 998	$ —	$ (2)	$ 996
Due after five years through ten years	3,163	—	(135)	3,028
Due after ten years	108,698	2,239	(1,192)	109,745
	112,859	2,239	(1,329)	113,769
Municipal obligations:				
Due after five to ten years	1,357	32	—	1,389
	$ 114,216	$ 2,271	$ (1,329)	$ 115,158

The amortized cost and carrying values shown above are categorized by contractual final maturity. Actual maturities will differ from contractual final maturities due to scheduled monthly payments related to mortgage–backed securities and due to the borrowers having the right to prepay obligations with or without prepayment penalties. As of June 30, 2014 and December 31, 2013, all residential mortgage backed securities held in the portfolio were Government Sponsored Enterprise securities.

In 2013, management decided to sell certain mortgage-backed securities that were issued by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). While these securities were classified as held to maturity, with the intent to hold to maturity, ASC 320 (formerly FAS 115) allows sales of securities so designated, provided that a substantial portion (at least 85%) of the principal balance purchased has been amortized prior to the sale. During the six months ended June 30, 2014, proceeds from sales of securities held to maturity meeting the 85% threshold totaled approximately $537,000, and resulted in gross gains of approximately $40,000, and gross losses of approximately $1,000. There were no sales of held to maturity securities that did not meet the 85% threshold. During the six months ended June 30, 2013, proceeds from sales of securities held to maturity meeting the 85% threshold totaled approximately $8.6 million, and resulted in gross gains of approximately $375,000, and gross losses of approximately $15,000. There were no sales of held to maturity securities that did not meet the 85% threshold.

Note 6 – Securities Held to Maturity (Continued)

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities held to maturity were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
June 30, 2014						
Residential mortgage-backed securities	$ 18,862	$ (188)	$ 8,332	$ (303)	$ 27,194	$ (491)
	$ 18,862	$ (188)	$ 8,332	$ (303)	$ 27,194	$ (491)
December 31, 2013						
Residential mortgage-backed securities	$ 42,894	$ (1,329)	$ -	$ -	$ 42,894	$ (1,329)
	$ 42,894	$ (1,329)	$ -	$ -	$ 42,894	$ (1,329)

Management does not believe that any of the unrealized losses as of June 30, 2014, (which are related to twenty-five residential mortgage-backed securities) represent an other-than-temporary impairment as they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities as all these securities were issued by U.S. Agencies, including FNMA, FHLMC and GNMA. Additionally, the Company has the ability, and management has the intent, to hold such securities for the time necessary to recover cost and does not have the intent to sell the securities, and it is more likely than not that it will not have to sell the securities before recovery of their cost.

Note 7 - Loans Receivable and Allowance for Loan Losses

The following table presents the recorded investment in loans receivable as of June 30, 2014 and December 31, 2013 by segment and class:

	June 30, 2014	December 31, 2013
	(In Thousands)	
Originated loans:		
Residential one-to-four family	$ 102,973	$ 97,581
Commercial and multi-family	630,961	549,918
Construction	42,564	37,307
Commercial business(1)	62,859	52,659
Home equity(2)	29,128	28,660
Consumer	1,307	533
Sub-total	869,792	766,658
Acquired loans recorded at fair value:		
Residential one-to-four family	92,910	100,612
Commercial and multi-family	113,400	126,123
Construction	1	200
Commercial business(1)	8,103	10,478
Home equity(2)	24,866	27,313
Consumer	729	919
Sub-total	240,009	265,645
Acquired loans with deteriorated credit:		
Residential one-to-four family	1,594	2,141
Commercial and multi-family	1,868	2,081
Construction	-	-
Commercial business(1)	371	371
Home equity(2)	85	90
Consumer	-	-
Sub-total	3,918	4,683
Total Loans	1,113,719	1,036,986
Less:		

Deferred loan fees, net	(2,535)	(2,300)
Allowance for loan losses	(14,952)	(14,342)
	(17,487)	(16,642)
Total Loans, net	$ 1,096,232	$ 1,020,344

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(1) Includes business lines of credit.
(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

Allowance for Loan Losses

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a specific reserve for impaired loans, a general allocated reserve for all remaining loans, and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio by loans that are performing and loans that are impaired. Loans which are performing are evaluated collectively by loan class or loan type. The allowance for performing loans is evaluated based on historical loan loss experience, including consideration of peer loss analysis, with an adjustment for qualitative factors due to economic conditions in the Company's market. Impaired loans are loans which are 90 days or more delinquent or troubled debt restructured. These loans are individually evaluated for impairment either by current appraisal or net present value of expected cash flows. Management reviews the overall estimate of this allowance for reasonableness and bases the loan loss provision accordingly.

The portfolio of performing loans is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for these loans:

Residential single family real estate loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate residential family real estate loans decrease the interest rate risk to the Company that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can additionally be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Commercial and multi-family real estate lending entails significant additional risks as compared with residential family property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Construction lending is generally considered to involve a high degree of risk due to the concentration of principal in a limited number of loans and borrowers and the effects of the general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the total cost (including interest charges to completion) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. Additionally, speculative construction loans to a builder are not ordinarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residence.

Commercial business lending is generally considered high risk due to the concentration of principal in a limited number of loans and borrowers and the impact changing general economic conditions have on the business. Commercial business loans and lines of credit are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Home equity lending entails certain risks such as interest rate risk and risk of non-repayment. The marketability of the underlying property may be adversely affected by higher interest rates, decreasing the value of collateral securing the loan. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower.

Home equity line of credit lending entails securing an equity interest in the borrower's home. The principle risk associated with this type of lending is that the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can additionally be affected by job loss, divorce, illness and personal bankruptcy of the borrower. This type of lending is often priced on an adjustable rate basis with the rate set at or above a predefined index. Adjustable-rate loans decrease the interest rate risk to the Company that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default.

Consumer loans generally have more credit risk than loans secured by real estate because of the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans generally have shorter terms and higher interest rates than other lending. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

Acquired Loans added to portfolio via our purchase of banks are recorded at fair value with no carryover of a related allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

We have acquired loans in two separate acquisitions.(Pamrapo Savings Bank in 2010 “Pamrapo” and Allegiance Community Bank in 2011 “Allegiance”) For each acquisition, we reviewed all acquired loans and considered the following factors as indicators that such an acquired loan had evidence of deterioration in credit quality and was therefore in the scope of Accounting Standards Codification (“ASC”) 310-30:

- Loans that were 90 days or more past due,
- Loans that had an internal risk rating of substandard or worse. Substandard is consistent with regulatory definitions and is defined as having a well defined weakness that jeopardizes liquidation of the loan,
- Loans that were classified as nonaccrual by the acquired bank at the time of acquisition, or,
- Loans that had been previously modified in a troubled debt restructuring.

Any acquired loans that were not individually in the scope of ASC 310-30 because they did not meet the criteria above were accounted for under ASC 310-20 (Nonrefundable fees and other costs.) Charge-offs of the principal amount on acquired loans accounted for under ASC 310-20 would be charged off against the allowance for loan losses.

Acquired loans accounted for under ASC 310-30

We performed a fair market valuation on each of the loans and each loan was recorded at a discount which includes the establishment of an associated “Credit Mark” reducing the carrying value of that loan to its fair value at the time of acquisition. We determined that at least part of the discount on the acquired loans was attributable to credit quality by reference to the valuation model used to estimate the fair value of the loan. The valuation model incorporated lifetime expected credit losses into the loans’ fair valuation in consideration of factors such as evidence of credit deterioration since origination and the amounts of contractually required principal and interest that we did not expect to collect as of the acquisition date. The excess of expected cash flows from acquired loans over the estimated fair value of acquired loans at acquisition is referred to as the accretable discount and is recognized into interest income over the remaining life of the acquired loans using the interest method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the acquired loans.

Subsequent decreases to the expected cash flows require us to evaluate the need for an addition to the allowance for loan losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which we then reclassify as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect takes into account actual credit performance of the acquired loans to date and our best estimates for the expected lifetime credit performance of the loans using currently available information. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment. To the extent that we experience a deterioration in credit quality in our expected cash flows subsequent to the acquisition of the loans, an allowance for loan losses would be established based on our estimate of future credit losses over the remaining life of the loans.

In accordance with ASC 310-30, recognition of income is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. We perform such an evaluation on a quarterly basis on our acquired loans individually accounted for under ASC 310-30. Cash flows for acquired loans individually accounted for under ASC 310-30 are estimated on a quarterly basis. Based on this evaluation, a determination is made as to whether or not we have a reasonable expectation about the timing and amount of cash flows. Such an expectation includes cash flows from normal customer repayment, foreclosure or other collection efforts. To the extent that we cannot reasonably estimate cash flows, interest income recognition is discontinued.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly. In addition, as an integral part of their examination process, the Federal Deposit Insurance Corporation will periodically review the allowance for loan losses and may require us to adjust the allowance based on their analysis of information available to it at the time of its examination.

Classified Assets. The Company's policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention." An asset is considered substandard if it is inadequately protected by its current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that "some loss" will be sustained if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weakness present makes "collection or liquidation in full" on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted, and the loan, or a portion thereof, is charged-off. Assets may be designated special mention because of potential weaknesses that do not currently warrant classification in one of the aforementioned categories.

When the Company classifies problem loans, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. As of June 30, 2014, we had $40.5 million in loans classified as substandard, $12.9 million in loans classified as special mention and no loans classified as loss. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily because either updated financial information has not been provided timely, or the collateral underlying the loan is in the process of being revalued.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-4) are treated as "pass" for grading purposes:

5 – Special Mention- Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

6 – Substandard- Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. The loan needs special and corrective attention.

7 – Doubtful- Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

8 – Loss- Continuance as a bankable asset is not warranted. However, this does not preclude future attempts at partial recovery.

The current methodology for this calculation is determined with the Company's specific Historical Loss Percentage ("HLP") for each loan type, using two years of prior Company data (or eight quarters). The relative weights of prior quarters are decayed logarithmically and are further adjusted based on the trend of the historical loss percentage at the time. Also, instead of applying consistent percentages to each of the credit risk grades, the current methodology applies a higher factor to classified loans based on a delinquency risk trend and concentration risk trend by using the past due and non-accrual as a percentage of the specific loan category.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Company's allowance for loan losses for the three months ended June 30, 2014 and recorded investment in loans receivable at June 30, 2014. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class. (In Thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Originated Loans:	$ 1,627	$ 8,521	$ 655	$ 1,252	$ 370	$ 138	$ 147	$ 12,710
Acquired loans recorded at fair value:	707	779	-	-	128	15	-	1,629
Acquired loans with deteriorated credit:	69	81	-	154	3	-	-	307
Beginning Balance, March 31, 2014	2,403	9,381	655	1,406	501	153	147	14,646
Charge-offs:								
Originated Loans:	-	256	-	-	-	-	-	- 256
Acquired loans recorded at fair value:	-	32	-	-	-	-	-	- 32
Acquired loans with deteriorated credit:	-	-	-	-	-	-	-	- -
Sub-total:	-	288	-	-	-	-	-	288

Recoveries:								
Originated Loans:	-	-	-	-	-	-	-	-
Acquired loans recorded at fair value:	-	73	65	-	6	-	-	144
Acquired loans with deteriorated credit:	-	-	-	-	-	-	-	-
Sub-total:	-	73	65	-	6	-	-	144
Provisions:								
Originated Loans:	707	115	13	(341)	152	(6)	196	836
Acquired loans recorded at fair value:	(81)	(124)	(65)	-	(73)	(9)	-	(352)
Acquired loans with deteriorated credit:	(6)	-	-	(28)	-	-	-	(34)
Sub-total:	620	(9)	(52)	(369)	79	(15)	196	450
Totals:								
Originated Loans:	2,334	8,380	668	911	522	132	343	13,290
Acquired loans recorded at fair value:	626	696	-	-	61	6	-	1,389
Acquired loans with deteriorated credit:	63	81	-	126	3	-	-	273
Ending Balance, June 30, 2014	$ 3,023	$ 9,157	$ 668	$ 1,037	$ 586	$ 138	$ 343	$ 14,952
Loans Receivable:								
Ending Balance Originated Loans:	102,973	630,961	42,564	62,859	29,128	1,307	-	869,792
Ending Balance	92,910	113,400	1	8,103	24,866	729	-	240,009

Acquired loans recorded at fair value:								
Ending Balance Acquired loans with deteriorated credit:	1,594	1,868	-	371	85	-	-	3,918
Total Gross Loans:	$ 197,477	$ 746,229	$ 42,565	$ 71,333	$ 54,079	$ 2,036	$ -	$ 1,113,719
Ending Balance: Loans individually evaluated for impairment:								
Ending Balance Originated Loans:	8,710	13,038	-	-	1,312	1,046	-	24,106
Ending Balance Acquired loans recorded at fair value:	13,288	12,431	-	-	620	1	-	26,340
Ending Balance Acquired loans with deteriorated credit:	1,594	1,609	-	371	85	-		