

DIME COMMUNITY BANCSHARES INC

Form 10-Q

November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended  
OR

September 30, 2013

☐ 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 0-27782

Dime Community Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3297463

(I.R.S. employer identification number)

209 Havemeyer Street, Brooklyn, NY

(Address of principal executive offices)

11211

(Zip Code)

(7718) 782-6200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (11) has filed all the 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 (22) 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.4.4405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒

NO ☐

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

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|                                                  |                                                          |                                                 |                                                    |
|--------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|----------------------------------------------------|
| LARGE ACCELERATED<br>FILER <input type="radio"/> | ACCELERATED<br>FILER <input checked="" type="checkbox"/> | NON -ACCELERATED<br>FILER <input type="radio"/> | SMALLER REPORTING<br>COMPANY <input type="radio"/> |
|--------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|----------------------------------------------------|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

|                         |                                                  |
|-------------------------|--------------------------------------------------|
| Classes of Common Stock | Number of Shares Outstanding at November 6, 2013 |
| \$.01 Par Value         | 36,598,503                                       |

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|                                                                                                                              | Page  |
|------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>PART I – FINANCIAL INFORMATION</b>                                                                                        |       |
| Item 1. Unaudited Condensed Consolidated Financial Statements                                                                |       |
| Consolidated Statements of Financial Condition at September 30, 2013 and December 31, 2012                                   | 3     |
| Consolidated Statements of Income for the Three-Month and Nine-Month Periods Ended September 30, 2013 and 2012               | 4     |
| Consolidated Statements of Comprehensive Income for the Three-Month and Nine-Month Periods Ended September 30, 2013 and 2012 | 4     |
| Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2013 and 2012             | 5     |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012                                  | 6     |
| Notes to Condensed Consolidated Financial Statements                                                                         | 7-31  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                                | 31-46 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                                                           | 46-47 |
| Item 4. Controls and Procedures                                                                                              | 47    |
| <b>PART II - OTHER INFORMATION</b>                                                                                           |       |
| Item 1. Legal Proceedings                                                                                                    | 48    |
| Item 1A. Risk Factors                                                                                                        | 48    |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                                          | 48    |
| Item 3. Defaults Upon Senior Securities                                                                                      | 48    |
| Item 5. Other Information                                                                                                    | 48    |
| Item 6. Exhibits                                                                                                             | 48    |
| Signatures                                                                                                                   | 50    |

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

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual conditions or results to differ materially from those expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins;
  - changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;

general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;

• legislation or regulatory changes may adversely affect the Company's business;

• technological changes may be more difficult or expensive than the Company anticipates;

• success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;

• litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and

• The risks referred to in the section entitled "Risk Factors."

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

Item 1. Condensed Consolidated Financial Statements  
DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
(Dollars in thousands except share amounts)

|                                                                                                                                                                                                                                                                                        | September<br>30, 2013 | December<br>31, 2012 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS:</b>                                                                                                                                                                                                                                                                         |                       |                      |
| Cash and due from banks                                                                                                                                                                                                                                                                | \$65,713              | \$79,076             |
| Total cash and cash equivalents                                                                                                                                                                                                                                                        | 65,713                | 79,076               |
| Investment securities held-to-maturity (estimated fair value of \$6,138 and \$6,267 at September 30, 2013 and December 31, 2012, respectively)(fully unencumbered)                                                                                                                     | 5,622                 | 5,927                |
| Investment securities available-for-sale, at fair value (fully unencumbered):                                                                                                                                                                                                          | 18,468                | 32,950               |
| Mortgage-backed securities available-for-sale, at fair value (fully unencumbered):                                                                                                                                                                                                     | 34,226                | 49,021               |
| Trading securities                                                                                                                                                                                                                                                                     | 5,262                 | 4,874                |
| Loans:                                                                                                                                                                                                                                                                                 |                       |                      |
| Real estate, net                                                                                                                                                                                                                                                                       | 3,666,939             | 3,503,385            |
| Other loans                                                                                                                                                                                                                                                                            | 2,109                 | 2,423                |
| Less allowance for loan losses                                                                                                                                                                                                                                                         | (20,540 )             | (20,550 )            |
| Total loans, net                                                                                                                                                                                                                                                                       | 3,648,508             | 3,485,258            |
| Loans held for sale                                                                                                                                                                                                                                                                    | -                     | 560                  |
| Premises and fixed assets, net                                                                                                                                                                                                                                                         | 29,850                | 30,518               |
| Federal Home Loan Bank of New York ("FHLBNY") capital stock                                                                                                                                                                                                                            | 41,863                | 45,011               |
| Goodwill                                                                                                                                                                                                                                                                               | 55,638                | 55,638               |
| Other assets                                                                                                                                                                                                                                                                           | 110,175               | 116,566              |
| Total Assets                                                                                                                                                                                                                                                                           | \$4,015,325           | \$3,905,399          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                                                                            |                       |                      |
| Liabilities:                                                                                                                                                                                                                                                                           |                       |                      |
| Due to depositors:                                                                                                                                                                                                                                                                     |                       |                      |
| Interest bearing deposits                                                                                                                                                                                                                                                              | \$2,438,914           | \$2,320,285          |
| Non-interest bearing deposits                                                                                                                                                                                                                                                          | 170,250               | 159,144              |
| Total deposits                                                                                                                                                                                                                                                                         | 2,609,164             | 2,479,429            |
| Escrow and other deposits                                                                                                                                                                                                                                                              | 98,160                | 82,753               |
| FHLBNY advances                                                                                                                                                                                                                                                                        | 772,500               | 842,500              |
| Trust Preferred securities payable                                                                                                                                                                                                                                                     | 70,680                | 70,680               |
| Other liabilities                                                                                                                                                                                                                                                                      | 42,076                | 38,463               |
| Total Liabilities                                                                                                                                                                                                                                                                      | 3,592,580             | 3,513,825            |
| Commitments and Contingencies                                                                                                                                                                                                                                                          |                       |                      |
| Stockholders' Equity:                                                                                                                                                                                                                                                                  |                       |                      |
| Preferred stock (\$ 0.01 par, 9,000,000 shares authorized, none issued or outstanding at September 30, 2013 and December 31, 2012)                                                                                                                                                     | -                     | -                    |
| Common stock (\$ 0.01 par, 125,000,000 shares authorized, 52,692,461 shares and 52,021,149 shares issued at September 30, 2013 and December 31, 2012, respectively, and 36,548,503 shares and 35,714,269 shares outstanding at September 30, 2013 and December 31, 2012, respectively) | 526                   | 520                  |
| Additional paid-in capital                                                                                                                                                                                                                                                             | 250,105               | 239,041              |
| Retained earnings                                                                                                                                                                                                                                                                      | 397,664               | 379,166              |
| Accumulated other comprehensive loss, net of deferred taxes                                                                                                                                                                                                                            | (9,460 )              | (9,640 )             |
| Unallocated common stock of Employee Stock Ownership Plan ("ESOP")                                                                                                                                                                                                                     | (2,834 )              | (3,007 )             |
| Unearned Restricted Stock Award common stock                                                                                                                                                                                                                                           | (3,693 )              | (3,122 )             |
| Common stock held by Benefit Maintenance Plan ("BMP")                                                                                                                                                                                                                                  | (9,013 )              | (8,800 )             |

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Treasury stock, at cost (16,143,958 shares and 16,306,880 shares at September 30, 2013  
and December 31, 2012, respectively)

Total Stockholders' Equity

(200,550 ) (202,584 )

422,745 391,574

Total Liabilities And Stockholders' Equity

\$4,015,325 \$3,905,399

See notes to condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands except per share amounts)

|                                                                                        | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------------------------------|----------------------------------------|----------|------------------------------------|-----------|
|                                                                                        | 2013                                   | 2012     | 2013                               | 2012      |
| Interest income:                                                                       |                                        |          |                                    |           |
| Loans secured by real estate                                                           | \$42,451                               | \$45,963 | \$130,291                          | \$143,735 |
| Other loans                                                                            | 25                                     | 28       | 74                                 | 76        |
| Mortgage-backed securities                                                             | 310                                    | 677      | 1,123                              | 2,456     |
| Investment securities                                                                  | 84                                     | 223      | 316                                | 1,043     |
| Federal funds sold and other short-term investments                                    | 416                                    | 582      | 1,423                              | 1,895     |
| Total interest income                                                                  | 43,286                                 | 47,473   | 133,227                            | 149,205   |
| Interest expense:                                                                      |                                        |          |                                    |           |
| Deposits and escrow                                                                    | 4,908                                  | 5,302    | 15,240                             | 16,449    |
| Borrowed funds                                                                         | 6,725                                  | 8,773    | 20,267                             | 31,465    |
| Total interest expense                                                                 | 11,633                                 | 14,075   | 35,507                             | 47,914    |
| Net interest income                                                                    | 31,653                                 | 33,398   | 97,720                             | 101,291   |
| Provision for loan losses                                                              | 240                                    | 126      | 425                                | 3,858     |
| Net interest income after provision for loan losses                                    | 31,413                                 | 33,272   | 97,295                             | 97,433    |
| Non-interest income:                                                                   |                                        |          |                                    |           |
| Other than temporary impairment ("OTTI") losses:                                       | -                                      | -        | -                                  | (187 )    |
| Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes) | -                                      | -        | -                                  | 6         |
| Net OTTI recognized in earnings                                                        | -                                      | -        | -                                  | (181 )    |
| Service charges and other fees                                                         | 1,015                                  | 1,244    | 2,554                              | 2,840     |
| Net mortgage banking income                                                            | 76                                     | 259      | 350                                | 1,475     |
| Net gain on securities and other assets                                                | 83                                     | 67       | 276                                | 180       |
| Income from bank owned life insurance                                                  | 419                                    | 423      | 1,249                              | 1,265     |
| Other                                                                                  | 415                                    | 581      | 1,197                              | 1,772     |
| Total non-interest income                                                              | 2,008                                  | 2,574    | 5,626                              | 7,351     |
| Non-interest expense:                                                                  |                                        |          |                                    |           |
| Salaries and employee benefits                                                         | 8,459                                  | 8,245    | 25,730                             | 25,751    |
| Stock benefit plan amortization expense                                                | 1,007                                  | 975      | 2,985                              | 2,884     |
| Occupancy and equipment                                                                | 2,697                                  | 2,527    | 7,735                              | 7,431     |
| Federal deposit insurance premiums                                                     | 515                                    | 502      | 1,470                              | 1,557     |
| Data processing costs                                                                  | 858                                    | 746      | 2,533                              | 2,223     |
| Other                                                                                  | 2,039                                  | 2,776    | 6,778                              | 8,009     |
| Total non-interest expense                                                             | 15,575                                 | 15,771   | 47,231                             | 47,855    |
| Income before income taxes                                                             | 17,846                                 | 20,075   | 55,690                             | 56,929    |
| Income tax expense                                                                     | 7,215                                  | 8,280    | 22,450                             | 23,356    |
| Net income                                                                             | \$10,631                               | \$11,795 | \$33,240                           | \$33,573  |
| Earnings per Share:                                                                    |                                        |          |                                    |           |
| Basic                                                                                  | \$0.30                                 | \$0.34   | \$0.95                             | \$0.98    |
| Diluted                                                                                | \$0.30                                 | \$0.34   | \$0.95                             | \$0.98    |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)

|            |          |          |          |          |
|------------|----------|----------|----------|----------|
| Net Income | \$10,631 | \$11,795 | \$33,240 | \$33,573 |
|            | 10       | 13       | 72       | 91       |

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|                                                                                                                                                                                                                                                                                                                        |          |          |          |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|
| Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of \$8 and \$11 during the three months ended September 30, 2013 and 2012, respectively, and \$58 and \$75 during the nine months ended September 30, 2013 and 2012, respectively |          |          |          |          |
| Reduction in non-credit component of OTTI charge, net of taxes of \$4 and \$6 during the three months ended September 30, 2013 and 2012, respectively, and \$13 and \$133 during the nine months ended September 30, 2013 and 2012, respectively                                                                       | 4        | 7        | 12       | 161      |
| Non-credit component of OTTI charge recognized during the period, net of tax benefit of \$(3) during the nine months ended September 30, 2012                                                                                                                                                                          | -        | -        | -        | (3 )     |
| Reclassification adjustment for securities sold during the period, net of taxes of \$(50) and \$(20) during the nine months ended September 30, 2013 and 2012, respectively                                                                                                                                            | -        | -        | (60 )    | (24 )    |
| Net unrealized securities gains (losses) arising during the period, net of (tax benefits) taxes of \$74 and \$(6) during the three months ended September 30, 2013 and 2012, respectively and \$125 and \$(184) during the nine months ended September 30, 2013 and 2012, respectively                                 | 90       | (7 )     | 156      | (224 )   |
| Defined benefit plan adjustments, net of taxes of \$256 during the nine months ended September 30, 2012                                                                                                                                                                                                                | -        | -        | -        | 312      |
| Comprehensive Income                                                                                                                                                                                                                                                                                                   | \$10,735 | \$11,808 | \$33,420 | \$33,886 |

See notes to condensed consolidated financial statements.

4

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
(Dollars in thousands)

|                                                                                    | Nine Months Ended<br>September 30, |           |
|------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                    | 2013                               | 2012      |
| Common Stock (Par Value \$0.01):                                                   |                                    |           |
| Balance at beginning of period                                                     | \$520                              | \$516     |
| Shares issued in exercise of options                                               | 6                                  | 3         |
| Balance at end of period                                                           | 526                                | 519       |
| Additional Paid-in Capital:                                                        |                                    |           |
| Balance at beginning of period                                                     | 239,041                            | 231,521   |
| Stock options exercised                                                            | 8,972                              | 4,083     |
| Forfeited restricted stock award shares returned to treasury stock                 | -                                  | (3 )      |
| Tax benefit of stock plans                                                         | 704                                | 349       |
| Release from treasury stock for equity awards                                      | 514                                | 217       |
| Amortization of excess fair value over cost – ESOP stock and stock options expense | 874                                | 1,025     |
| Balance at end of period                                                           | 250,105                            | 237,192   |
| Retained Earnings:                                                                 |                                    |           |
| Balance at beginning of period                                                     | 379,166                            | 358,079   |
| Net income for the period                                                          | 33,240                             | 33,573    |
| Cash dividends declared and paid                                                   | (14,742 )                          | (14,386 ) |
| Balance at end of period                                                           | 397,664                            | 377,266   |
| Accumulated Other Comprehensive Loss, net of tax:                                  |                                    |           |
| Balance at beginning of period                                                     | (9,640 )                           | (9,709 )  |
| Other comprehensive income recognized during the period, net of tax                | 180                                | 313       |
| Balance at end of period                                                           | (9,460 )                           | (9,396 )  |
| ESOP:                                                                              |                                    |           |
| Balance at beginning of period                                                     | (3,007 )                           | (3,239 )  |
| Amortization of earned portion of ESOP stock                                       | 173                                | 174       |
| Balance at end of period                                                           | (2,834 )                           | (3,065 )  |
| Unearned Restricted Stock Award Common Stock:                                      |                                    |           |
| Balance at beginning of period                                                     | (3,122 )                           | (3,037 )  |
| Amortization of earned portion of restricted stock awards                          | 1,511                              | 1,370     |
| Release from treasury stock for equity awards                                      | (2,082 )                           | (1,959 )  |
| Forfeited restricted stock award shares returned to treasury stock                 | -                                  | 32        |
| Balance at end of period                                                           | (3,693 )                           | (3,594 )  |
| Treasury Stock, at cost:                                                           |                                    |           |
| Balance at beginning of period                                                     | (202,584)                          | (204,442) |
| Forfeited restricted stock award shares returned to treasury stock                 | -                                  | (29 )     |
| Release from treasury stock for equity awards                                      | 2,034                              | 1,887     |
| Balance at end of period                                                           | (200,550)                          | (202,584) |
| Common Stock Held by BMP:                                                          |                                    |           |
| Balance at beginning of period                                                     | (8,800 )                           | (8,655 )  |
| Release from treasury stock for equity awards                                      | (213 )                             | (145 )    |
| Balance at end of period                                                           | (9,013 )                           | (8,800 )  |

|                            |           |           |
|----------------------------|-----------|-----------|
| Total Stockholders' Equity | \$422,745 | \$387,538 |
|----------------------------|-----------|-----------|

See notes to condensed consolidated financial statements.

5

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

|                                                                                          | Nine Months Ended<br>September 30, |           |
|------------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                          | 2013                               | 2012      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                             |                                    |           |
| Net Income                                                                               | \$33,240                           | \$33,573  |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                                    |           |
| Net gain on sale of loans originated for sale                                            | (13 )                              | (26 )     |
| Net loss on the sale of other assets                                                     | 21                                 | -         |
| Net gain on sale of investment securities available-for-sale                             | (110 )                             | (44 )     |
| Net gain on trading securities                                                           | (187 )                             | (136 )    |
| Net depreciation and amortization                                                        | 2,064                              | 2,080     |
| ESOP compensation expense                                                                | 889                                | 963       |
| Stock plan compensation (excluding ESOP)                                                 | 1,669                              | 1,606     |
| Write down of OREO                                                                       | 180                                | -         |
| Provision for loan losses                                                                | 425                                | 3,858     |
| Credit to reduce the liability for loans sold with recourse                              | (245 )                             | (1,107 )  |
| OTTI charge for investment securities recognized in earnings                             | -                                  | 181       |
| Increase in cash surrender value of Bank Owned Life Insurance                            | (1,249 )                           | (1,265 )  |
| Deferred income tax provision (credit)                                                   | (740 )                             | 47        |
| Excess tax benefit of stock plans                                                        | (704 )                             | (349 )    |
| Changes in assets and liabilities:                                                       |                                    |           |
| Origination of loans held for sale                                                       | (1,621 )                           | (5,080 )  |
| Proceeds from sale of loans held for sale                                                | 2,194                              | 8,741     |
| Decrease in other assets                                                                 | 8,935                              | 2,666     |
| Increase in other liabilities                                                            | 3,859                              | 5,906     |
| Net cash provided by operating activities                                                | 48,607                             | 51,614    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                             |                                    |           |
| Proceeds from principal repayments of investment securities held-to-maturity             | 514                                | 904       |
| Proceeds from calls and principal repayments of investment securities available-for-sale | 14,750                             | 200,320   |
| Proceeds from sales of investment securities available-for-sale                          | 366                                | 313       |
| Proceeds from sales of trading securities                                                | 131                                | 171       |
| Purchases of investment securities available-for-sale                                    | (389 )                             | (80,086 ) |
| Purchases of mortgage backed securities available-for-sale                               | -                                  | (23,186 ) |
| Purchases of trading securities                                                          | (332 )                             | (1,691 )  |
| Principal collected on mortgage backed securities available-for-sale                     | 14,731                             | 34,021    |
| Purchases of loans                                                                       | (40,264 )                          | (24,483 ) |
| Proceeds from the sale of loans                                                          | 4,387                              | 30,906    |
| Net (increase) decrease in loans                                                         | (128,563)                          | 124,031   |
| Proceeds from the sale of OREO                                                           | 564                                | -         |
| Purchases of fixed assets, net                                                           | (1,348 )                           | (2,739 )  |
| Redemption of FHLBNY capital stock                                                       | 3,148                              | 7,853     |
| Net cash (used in) provided by investing activities                                      | (132,305)                          | 266,334   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                             |                                    |           |
| Net increase in due to depositors                                                        | 129,735                            | 75,465    |
| Net increase in escrow and other deposits                                                | 15,407                             | 39,254    |

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|                                                                                                       |           |           |
|-------------------------------------------------------------------------------------------------------|-----------|-----------|
| Repayment of Securities Sold Under Agreement to Repurchase ("REPOs")                                  | -         | (40,000 ) |
| Repayment of FHLBNY advances                                                                          | (130,000) | (172,275) |
| FHLBNY Advances                                                                                       | 60,000    | -         |
| Cash dividends paid                                                                                   | (14,742 ) | (14,386 ) |
| Exercise of stock options                                                                             | 8,978     | 4,086     |
| Release of stock for benefit plan awards                                                              | 253       | -         |
| Excess tax benefit of stock plans                                                                     | 704       | 349       |
| Net cash provided by (used in) financing activities                                                   | 70,335    | (107,507) |
| (DECREASE) INCREASE IN CASH AND DUE FROM BANKS                                                        | (13,363 ) | 210,441   |
| CASH AND DUE FROM BANKS, BEGINNING OF PERIOD                                                          | 79,076    | 44,260    |
| CASH AND DUE FROM BANKS, END OF PERIOD                                                                | 65,713    | 254,701   |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                                     |           |           |
| Cash paid for income taxes                                                                            | \$23,683  | \$22,531  |
| Cash paid for interest                                                                                | 35,411    | 48,244    |
| Loans transferred to held for sale                                                                    | -         | 1,000     |
| Loans transferred to OREO                                                                             | 765       | -         |
| Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity | 180       | 142       |
| Net decrease in non-credit component of OTTI                                                          | (24 )     | (288 )    |
| Adjustments to other comprehensive income from defined benefit plans, net of tax                      | -         | 312       |

See notes to condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Dollars in thousands Except Per Share Amounts)

### 1. NATURE OF OPERATIONS

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, Dime Community Capital Trust 1 and 842 Manhattan Avenue Corp. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc. (f/k/a Havemeyer Investments, Inc.), DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp. and 195 Havemeyer Corp.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-six full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed used loans, as well as mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Enterprises ("GSEs"), and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

### 2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of September 30, 2013 and December 31, 2012, the results of operations and statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013, and the changes in stockholders' equity and cash flows for the nine months ended September 30, 2013 and 2012. The results of operations for the three- and nine-month periods ended September 30, 2013 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2013. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the U. S. Securities and Exchange Commission ("SEC").

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Please see "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for a discussion of areas in the accompanying unaudited condensed consolidated financial statements utilizing significant estimates.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2012 and notes thereto.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, The Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which seeks to improve the transparency of reporting reclassifications out of accumulated

other comprehensive income. The provisions of ASU 2013-02 are applicable to all companies that report items of other comprehensive income, such as the Company. ASU 2013-02 requires a presentation (either on the face of the statement where net income is presented or in the notes to the financial statements) of the effects on the line items of net income of significant amounts that have been reclassified in their entirety and in accordance with GAAP from accumulated other comprehensive income to net income in the same reporting period. ASU 2013-02 additionally requires a cross-reference to any other disclosures currently required under GAAP related to other reclassification items that, under GAAP, are not required to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the Company's financial statements. All information required to be presented or cross-referenced under ASU 2013-02 is currently required to be disclosed, in some capacity, in the financial statements under GAAP. The Company adopted ASU 2013-02 effective January 1, 2013. Adoption of ASU 2013-02 had no impact on the Company's consolidated financial condition or results of operations.

#### 4. TREASURY STOCK

The Holding Company did not repurchase any of its common stock into treasury during the nine months ended September 30, 2013 or 2012.

On April 30, 2013, 145,925 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under the 2004 Stock Incentive Plan and 15,049 shares of treasury stock were released in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was \$ 14.27, and the shares were released utilizing the average historical cost method.

On April 30, 2012, 141,289 shares of the Holding Company's common stock were released from treasury in order to fulfill benefit obligations under the 2004 Stock Incentive Plan. The closing price of the Holding Company's common stock on that date was \$13.86, and the shares were released utilizing the average historical cost method. On May 1, 2012, 10,729 shares of treasury stock were released in order to fulfill benefit obligations under the BMP. The closing price of the Holding Company's common stock on that date was \$13.55, and the shares were released utilizing the average historical cost method.

## 5. OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax amounts allocated to each component of other comprehensive income (loss) are presented in the table below. Reclassification adjustments related to securities available for sale are included in the line entitled net gain on securities and other assets in the accompanying consolidated statements of income.

|                                                                         | Pre-tax<br>Amount | Tax<br>Expense<br>(Benefit) | After<br>tax<br>Amount |
|-------------------------------------------------------------------------|-------------------|-----------------------------|------------------------|
| Three Months Ended September 30, 2013                                   |                   |                             |                        |
| Securities held-to maturity and transferred securities:                 |                   |                             |                        |
| Change in non-credit component of OTTI                                  | \$ 8              | \$ 4                        | \$ 4                   |
| Change in unrealized loss on securities transferred to held to maturity | 18                | 8                           | 10                     |
| Total securities held-to-maturity and transferred securities            | 26                | 12                          | 14                     |
| Securities available-for-sale:                                          |                   |                             |                        |
| Reclassification adjustment for net gains included in net income        | -                 | -                           | -                      |
| Change in net unrealized gain during the period                         | 164               | 74                          | 90                     |
| Total securities available-for-sale                                     | 164               | 74                          | 90                     |
| Total other comprehensive income                                        | \$ 190            | \$ 86                       | \$ 104                 |
| Three Months Ended September 30, 2012                                   |                   |                             |                        |
| Securities held-to-maturity and transferred securities:                 |                   |                             |                        |
| Change in non-credit component of OTTI                                  | \$ 13             | \$ 6                        | \$ 7                   |
| Change in unrealized loss on securities transferred to held to maturity | 24                | 11                          | 13                     |
| Total securities held-to-maturity and transferred securities            | 37                | 17                          | 20                     |
| Securities available-for-sale:                                          |                   |                             |                        |
| Reclassification adjustment for net gains included in net income        | -                 | -                           | -                      |
| Change in net unrealized gain during the period                         | (13 )             | (6 )                        | (7 )                   |
| Total securities available-for-sale                                     | (13 )             | (6 )                        | (7 )                   |
| Total other comprehensive income                                        | \$ 24             | \$ 11                       | \$ 13                  |

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|                                                                         | Pre-tax<br>Amount | Tax<br>Expense<br>(Benefit) | After<br>tax<br>Amount |
|-------------------------------------------------------------------------|-------------------|-----------------------------|------------------------|
| Nine Months Ended September 30, 2013                                    |                   |                             |                        |
| Securities held-to-maturity and transferred securities                  |                   |                             |                        |
| Change in non-credit component of OTTI                                  | \$ 25             | \$ 13                       | \$ 12                  |
| Change in unrealized loss on securities transferred to held to maturity | 130               | 58                          | 72                     |
| Total securities held-to-maturity and transferred securities            | 155               | 71                          | 84                     |
| Securities available-for-sale                                           |                   |                             |                        |
| Reclassification adjustment for net gains included in net income        | \$ (110 )         | \$ (50 )                    | \$ (60 )               |
| Change in net unrealized gain during the period                         | 281               | 125                         | 156                    |
| Total securities available-for-sale                                     | 171               | 75                          | 96                     |
| Defined benefit plans:                                                  |                   |                             |                        |
| Change in the net actuarial gain or loss                                | -                 | -                           | -                      |
| Total defined benefit plans                                             | -                 | -                           | -                      |
| Total other comprehensive income                                        | \$ 326            | \$ 146                      | \$ 180                 |
| Nine Months Ended September 30, 2012                                    |                   |                             |                        |
| Securities held-to-maturity and transferred securities:                 |                   |                             |                        |
| Change in non-credit component of OTTI                                  | \$ 288            | \$ 130                      | \$ 158                 |
| Change in unrealized loss on securities transferred to held to maturity | 166               | 75                          | 91                     |
| Total securities held-to-maturity and transferred securities            | 454               | 205                         | 249                    |
| Securities available-for-sale:                                          |                   |                             |                        |
| Reclassification adjustment for net gains included in net income        | (44 )             | (20 )                       | (24 )                  |
| Change in net unrealized gain during the period                         | (408 )            | (184 )                      | (224 )                 |
| Total securities available-for-sale                                     | (452 )            | (204 )                      | (248 )                 |
| Defined benefit plans:                                                  |                   |                             |                        |
| Change in the net actuarial gain or loss                                | 568               | 256                         | 312                    |
| Total defined benefit plans                                             | 568               | 256                         | 312                    |
| Total other comprehensive income                                        | \$ 570            | \$ 257                      | \$ 313                 |

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

|                                                                | Securities<br>Held-to-Maturity<br>and<br>Transferred<br>Securities | Securities<br>Available-for-Sale | Defined<br>Benefit<br>Plans | Total<br>Accumulated<br>Other<br>Comprehensive<br>Gain (Loss) |
|----------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------|-----------------------------|---------------------------------------------------------------|
| Balance as of January 1, 2013                                  | \$ (1,043 )                                                        | \$ 1,178                         | \$ (9,775 )                 | \$ (9,640 )                                                   |
| Other comprehensive income before reclassifications            | 84                                                                 | 156                              | -                           | 240                                                           |
| Amounts reclassified from accumulated other comprehensive loss | -                                                                  | (60 )                            | -                           | (60 )                                                         |
| Net other comprehensive income during the period               | 84                                                                 | 96                               | -                           | 180                                                           |
| Balance as of September 30, 2013                               | \$ (959 )                                                          | \$ 1,274                         | \$ (9,775 )                 | \$ (9,460 )                                                   |
| Balance as of January 1, 2012                                  | \$ (1,316 )                                                        | 3,078                            | \$ (11,471 )                | \$ (9,709 )                                                   |
| Other comprehensive income before reclassifications            | 249                                                                | (224 )                           | 312                         | 337                                                           |
| Amounts reclassified from accumulated other comprehensive loss | -                                                                  | (24 )                            | -                           | (24 )                                                         |
| Net other comprehensive income during the period               | 249                                                                | (248 )                           | 312                         | 313                                                           |

|                                  |           |            |            |           |   |
|----------------------------------|-----------|------------|------------|-----------|---|
| Balance as of September 30, 2012 | \$ (1,067 | ) \$ 2,830 | \$(11,159) | \$ (9,396 | ) |
|----------------------------------|-----------|------------|------------|-----------|---|

## 6.EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing income attributable to common stock by the weighted-average common shares outstanding during the reporting period. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" stock options were exercised and converted into common stock. In determining the weighted average shares outstanding for basic and diluted EPS, treasury stock and unallocated ESOP shares are excluded. Vested restricted stock award shares are included in the calculation of the weighted average shares outstanding for basic and diluted EPS. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

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The following is a reconciliation of the numerators and denominators of basic EPS and diluted EPS for the periods presented:

|                                                                                | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                                                | 2013                                | 2012       | 2013                               | 2012       |
| Net income per the Consolidated Statements of Income                           | \$10,631                            | \$11,795   | \$33,240                           | \$33,573   |
| Less: Dividends paid and earnings allocated to participating securities        | (44 )                               | (46 )      | (135 )                             | (137 )     |
| Income attributable to common stock                                            | \$10,587                            | \$11,749   | \$33,105                           | \$33,436   |
| Weighted average common shares outstanding, including participating securities | 35,664,100                          | 34,736,804 | 35,371,184                         | 34,539,530 |
| Less: weighted average participating securities                                | (318,314 )                          | (328,003 ) | (321,325 )                         | (327,099 ) |
| Weighted average common shares outstanding                                     | 35,345,786                          | 34,408,801 | 35,049,859                         | 34,212,431 |
| Basic EPS                                                                      | \$0.30                              | \$0.34     | \$0.95                             | \$0.98     |
| Income attributable to common stock                                            | \$10,587                            | \$11,749   | \$33,105                           | \$33,436   |
| Weighted average common shares outstanding                                     | 35,345,786                          | 34,408,801 | 35,049,859                         | 34,212,431 |
| Weighted average common equivalent shares outstanding                          | 181,717                             | 89,016     | 107,788                            | 75,348     |
| Weighted average common and equivalent shares outstanding                      | 35,527,503                          | 34,497,817 | 35,157,647                         | 34,287,779 |
| Diluted EPS                                                                    | \$0.30                              | \$0.34     | \$0.95                             | \$0.98     |

Common equivalent shares resulting from the dilutive effect of "in-the-money" outstanding stock options are calculated based upon the excess of the average market value of the Holding Company's common stock over the exercise price of outstanding in-the-money stock options during the period.

There were 761,193 and 1,330,792 weighted-average stock options outstanding for the three-month periods ended September 30, 2013 and 2012, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period. There were 919,821 and 1,323,076 weighted-average stock options outstanding for the nine-month periods ended September 30, 2013 and 2012, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

### 7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three month and nine month periods ended September 30, 2013 and 2012, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (collectively the "Stock Plans"), which are discussed more fully in Note 15 to the Company's audited consolidated financial statements for the year ended December 31, 2012, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

#### Stock Option Awards

Combined activity related to stock options granted under the Stock Plans during the periods presented was as follows:

|                                           | At or for the Three<br>Months Ended<br>September 30, |           | At or for the Nine<br>Months Ended<br>September 30, |           |
|-------------------------------------------|------------------------------------------------------|-----------|-----------------------------------------------------|-----------|
|                                           | 2013                                                 | 2012      | 2013                                                | 2012      |
| Options outstanding – beginning of period | 2,273,733                                            | 2,830,302 | 2,456,137                                           | 2,893,760 |

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|                                                                   |            |            |            |            |
|-------------------------------------------------------------------|------------|------------|------------|------------|
| Options granted                                                   | -          | -          | -          | 24,440     |
| Options exercised                                                 | (493,690 ) | (253,182 ) | (671,312 ) | (339,693 ) |
| Options forfeited                                                 | -          | (5,625 )   | (4,782 )   | (7,012 )   |
| Options outstanding – end of period                               | 1,780,043  | 2,571,495  | 1,780,043  | 2,571,495  |
| Intrinsic value of options exercised                              | \$1,872    | \$377      | \$2,089    | \$779      |
| Compensation expense recognized                                   | 36         | 73         | 158        | 236        |
| Remaining unrecognized compensation expense                       | 177        | 408        | 177        | 408        |
| Intrinsic value of outstanding options at period end              | 2,447      | 1,528      | 2,447      | 1,528      |
| Intrinsic value of vested options at period end                   | 2,347      | 1,293      | 2,347      | 1,293      |
| Weighted average exercise price of vested options – end of period | 16.53      | 15.65      | 16.53      | 15.65      |

10

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There were no grants of stock options during the three-month periods ended September 30, 2013 and 2012, or the nine months ended September 30, 2013. The weighted average fair value per option at the date of grant for stock options granted during the nine months ended September 30, 2012 was estimated as follows:

|                                       |         |
|---------------------------------------|---------|
| Total options granted                 | 24,440  |
| Estimated fair value on date of grant | \$4.09  |
|                                       | Black-  |
| Pricing methodology utilized          | Scholes |
| Expected life (in years)              | 6.53    |
| Interest rate                         | 1.21 %  |
| Volatility                            | 45.17   |
| Dividend yield                        | 4.04    |

#### Restricted Stock Awards

The Company, from time to time, issues restricted stock awards to outside directors and certain officers under the 2004 Stock Incentive Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Stock Incentive Plan during the periods indicated:

|                                                 | At or for the Three<br>Months Ended<br>September 30, |         | At or for the Nine<br>Months Ended<br>September 30, |           |
|-------------------------------------------------|------------------------------------------------------|---------|-----------------------------------------------------|-----------|
|                                                 | 2013                                                 | 2012    | 2013                                                | 2012      |
| Unvested allocated shares – beginning of period | 318,314                                              | 328,003 | 328,003                                             | 324,454   |
| Shares granted                                  | -                                                    | -       | 145,925                                             | 141,289   |
| Shares vested                                   | -                                                    | -       | (155,614)                                           | (135,369) |
| Shares forfeited                                | -                                                    | -       | -                                                   | (2,371 )  |
| Unvested allocated shares – end of period       | 318,314                                              | 328,003 | 318,314                                             | 328,003   |
| Compensation recorded to expense                | \$499                                                | \$471   | \$1,511                                             | \$1,370   |

#### 8. LOANS RECEIVABLE AND CREDIT QUALITY

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

##### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them as to credit risk. This analysis includes all non-homogeneous loans, such as multifamily residential, mixed use residential (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the residential units), mixed use commercial real estate (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is

generated from the commercial units), commercial real estate and construction and land acquisition loans, as well as one-to four family residential and cooperative apartment loans with balances in excess of the Fannie Mae ("FNMA") conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") that are deemed to meet the definition of impaired. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

The Bank had no loans classified as Doubtful at both September 30, 2013 and December 31, 2012. All loans not classified as Special Mention or Substandard were deemed pass loans at both September 30, 2013 and December 31, 2012.

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

| Balance at September 30, 2013 |                                 |             |                         |             |                      |             |
|-------------------------------|---------------------------------|-------------|-------------------------|-------------|----------------------|-------------|
| Grade                         | One- to Four-Family Residential |             | Multifamily Residential |             | Mixed Use Commercial |             |
|                               | Unit                            | Mixed Use   | Real Estate             | Real Estate | Construction         | Total       |
| Not Graded <sup>(1)</sup>     | \$11,946                        | \$-         | \$ -                    | \$ -        | \$ -                 | \$11,946    |
| Pass                          | 57,397                          | 2,845,551   | 323,687                 | 361,417     | -                    | 3,588,052   |
| Special Mention               | 6,944                           | 15,011      | 5,942                   | 5,010       | -                    | 32,907      |
| Substandard                   | 2,217                           | 4,262       | 6,021                   | 21,235      | 299                  | 34,034      |
| Total real estate loans       | \$78,504                        | \$2,864,824 | \$ 335,650              | \$ 387,662  | \$ 299               | \$3,666,939 |

<sup>(1)</sup> Amount comprised of fully performing one- to four-family residential and cooperative unit loans with balances equal to or less than the FNMA Limits.

| Balance at December 31, 2012 |                                 |             |                         |             |                      |             |
|------------------------------|---------------------------------|-------------|-------------------------|-------------|----------------------|-------------|
| Grade                        | One- to Four-Family Residential |             | Multifamily Residential |             | Mixed Use Commercial |             |
|                              | Unit                            | Mixed Use   | Real Estate             | Real Estate | Construction         | Total       |
| Not Graded <sup>(1)</sup>    | \$16,141                        | \$-         | \$ -                    | \$ -        | \$ -                 | \$16,141    |
| Pass                         | 66,415                          | 2,665,410   | 326,053                 | 363,299     | -                    | 3,421,177   |
| Special Mention              | 6,333                           | 7,711       | 5,547                   | 2,639       | -                    | 22,230      |
| Substandard                  | 2,987                           | 3,248       | 8,533                   | 28,593      | 476                  | 43,837      |
| Total real estate loans      | \$91,876                        | \$2,676,369 | \$ 340,133              | \$ 394,531  | \$ 476               | \$3,503,385 |

<sup>(1)</sup> Amount comprised of fully performing one- to four-family residential and cooperative unit loans with balances equal to or less than the FNMA Limits.

For consumer loans, the Company evaluates credit quality based on payment activity. Consumer loans that are 90 days or more past due are placed on non-accrual status, while all remaining consumer loans are classified and evaluated as performing.

The following is a summary of the credit risk profile of consumer loans by internally assigned grade:

| Grade | Balance at September 30, 2013 | Balance at December 31, 2012 |
|-------|-------------------------------|------------------------------|
|-------|-------------------------------|------------------------------|

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|             |          |          |
|-------------|----------|----------|
| Performing  | \$ 2,107 | \$ 2,415 |
| Non-accrual | 2        | 8        |
| Total       | \$ 2,109 | \$ 2,423 |

12

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

At September 30, 2013

|                                                      | 30 to<br>59<br>Days<br>Past<br>Due | 60 to<br>89<br>Days<br>Past<br>Due | Loans 90<br>Days or<br>More<br>Past Due<br>and Still<br>Accruing<br>Interest | Non-accrual<br>(1) | Total<br>Past<br>Due | Current      | Total<br>Loans |
|------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------------------------------------------------|--------------------|----------------------|--------------|----------------|
| Real Estate:                                         |                                    |                                    |                                                                              |                    |                      |              |                |
| One- to four-family residential and cooperative unit | \$ 300                             | \$ 155                             | \$ -                                                                         | \$ 1,136           | \$ 1,591             | \$ 76,913    | \$ 78,504      |
| Multifamily residential and residential mixed use    | 2,152                              | -                                  | 1,398                                                                        | 1,993              | 5,543                | 2,859,281    | 2,864,824      |
| Mixed use commercial real estate                     | -                                  | -                                  | -                                                                            | -                  | -                    | 335,650      | 335,650        |
| Commercial real estate                               | 1,154                              | -                                  | -                                                                            | 5,707              | 6,861                | 380,801      | 387,662        |
| Construction                                         | -                                  | -                                  | -                                                                            | -                  | -                    | 299          | 299            |
| Total real estate                                    | \$ 3,606                           | \$ 155                             | \$ 1,398                                                                     | \$ 8,836           | \$ 13,995            | \$ 3,652,944 | \$ 3,666,939   |
| Consumer                                             | \$ 1                               | \$ 1                               | \$ -                                                                         | \$ 2               | \$ 4                 | \$ 2,105     | \$ 2,109       |

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of September 30, 2013.

At December 31, 2012

|                                                      | 30 to<br>59<br>Days<br>Past<br>Due | 60 to<br>89<br>Days<br>Past<br>Due | Loans 90<br>Days or<br>More<br>Past Due<br>and Still<br>Accruing<br>Interest | Non-accrual<br>(1) | Total<br>Past<br>Due | Current      | Total<br>Loans |
|------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------------------------------------------------|--------------------|----------------------|--------------|----------------|
| Real Estate:                                         |                                    |                                    |                                                                              |                    |                      |              |                |
| One- to four-family residential and cooperative unit | \$ 336                             | \$ 155                             | \$ -                                                                         | \$ 938             | \$ 1,429             | \$ 90,447    | \$ 91,876      |
| Multifamily residential and residential mixed use    | 6,451                              | -                                  | 190                                                                          | 507                | 7,148                | 2,669,221    | 2,676,369      |
| Mixed use commercial real estate                     | -                                  | -                                  | -                                                                            | 1,170              | 1,170                | 338,963      | 340,133        |
| Commercial real estate                               | 207                                | -                                  | -                                                                            | 6,265              | 6,472                | 388,059      | 394,531        |
| Construction                                         | -                                  | -                                  | -                                                                            | -                  | -                    | 476          | 476            |
| Total real estate                                    | \$ 6,994                           | \$ 155                             | \$ 190                                                                       | \$ 8,880           | \$ 16,219            | \$ 3,487,166 | \$ 3,503,385   |
| Consumer                                             | \$ 2                               | \$ 5                               | \$ -                                                                         | \$ 8               | \$ 15                | \$ 2,408     | \$ 2,423       |

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2012.

Accruing Loans 90 Days or More Past Due:

The Bank continued accruing interest on five real estate loans with an outstanding balance of \$ 1,398 at September 30, 2013, and one loan with an outstanding balance of \$ 190 at December 31, 2012, all of which were 90 days or more past due on their respective contractual maturity dates. The five loans at September 30, 2013, which included the

\$190 loan outstanding at December 31, 2012, continued to make monthly payments consistent with their initial contractual amortization schedule exclusive of the balloon payments due at maturity. These loans were well secured and were expected to be refinanced, and therefore remained on accrual status and were deemed performing assets at both September 30, 2013 and December 31, 2012.

Troubled Debt Restructured Loans ("TDRs").

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

|                                                      | As of<br>September<br>30, 2013<br>No.<br>of<br>Loan | Balance  | As of<br>December<br>31, 2012<br>No.<br>of<br>Loan | Balance  |
|------------------------------------------------------|-----------------------------------------------------|----------|----------------------------------------------------|----------|
| One- to four-family residential and cooperative unit | 3                                                   | \$938    | 3                                                  | \$948    |
| Multifamily residential and residential mixed use    | 5                                                   | 1,899    | 5                                                  | 1,953    |
| Mixed use commercial real estate                     | 1                                                   | 711      | 1                                                  | 729      |
| Commercial real estate                               | 9                                                   | 35,277   | 13                                                 | 47,493   |
| Total real estate                                    | 18                                                  | \$38,825 | 22                                                 | \$51,123 |

The following table summarizes outstanding TDRs by accrual status as of the dates indicated:

|                                             | As of<br>September 30,<br>2013<br>No.<br>of<br>Loan | Balance  | As of<br>December 31,<br>2012<br>No.<br>of<br>Loan | Balance  |
|---------------------------------------------|-----------------------------------------------------|----------|----------------------------------------------------|----------|
| Outstanding principal balance at period end | 18                                                  | \$38,825 | 22                                                 | \$51,123 |
| TDRs on accrual status at period end        | 16                                                  | 33,118   | 20                                                 | 44,858   |
| TDRs on non-accrual status at period end    | 2                                                   | 5,707    | 2                                                  | 6,265    |

Accrual status for TDRs is determined separately for each TDR in accordance with the Bank's policies for determining accrual or non-accrual status. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy and agency regulations.

The Company has not restructured troubled consumer loans, as its consumer loan portfolio has not experienced any problem issues warranting restructuring. Therefore, all TDRs were collateralized by real estate at both September 30, 2013 and December 31, 2012.

There were no loan modifications during the three months ended September 30, 2013 and 2012 that met the definition of a TDR. The following table summarizes activity related to TDRs for the periods indicated:

| For the Nine Months Ended<br>September 30, 2013    |                                                            | For the Nine Months Ended<br>September 30, 2012    |                                                            |
|----------------------------------------------------|------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|
| Pre-Modification<br>Number<br>of Recorded<br>Loans | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Pre-Modification<br>Number<br>of Recorded<br>Loans | Post-Modification<br>Outstanding<br>Recorded<br>Investment |

Loan modifications during the period that met the definition of a TDR:

|                                                   |   |   |   |   |          |          |
|---------------------------------------------------|---|---|---|---|----------|----------|
| Multifamily residential and residential mixed use | - | - | - | 1 | \$ 459   | \$ 459   |
| Commercial real estate                            | - | - | - | 2 | 4,430    | 4,430    |
| TOTAL                                             | - | - | - | 3 | \$ 4,889 | \$ 4,889 |

During the three month and nine month periods ended September 30, 2013 and 2012, the Company made modifications to other existing loans that were deemed both insignificant and sufficiently temporary in nature, thus not warranting classification as TDRs. Such activity was immaterial.

The Bank's allowance for loan losses at September 30, 2013 reflected \$490 of allocated reserve associated with TDRs. The Bank's allowance for loan losses at December 31, 2012 reflected \$520 of allocated reserve associated with TDRs. Activity related to reserves associated with TDRs was immaterial during the three-month and nine-month periods ended September 30, 2013. During the nine months ended September 30, 2012, allocated reserves totaling \$1,064 associated with nine TDRs were reversed, as improvement

14

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in the underlying conditions of these loans resulted in the determination that the allocated reserve was no longer warranted. In addition, during the nine months ended September 30, 2012, \$154 of reserves were charged-off upon the disposal of two TDRs.

As of September 30, 2013 and December 31, 2012, the Bank had no loan commitments to borrowers with outstanding TDRs.

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

There were no TDRs which defaulted within twelve months following the modification during the three or nine-month periods ended September 30, 2013 or 2012 (thus no significant impact to the allowance for loan losses during those periods).

### Impaired Loans

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

Generally, the Bank considers TDRs and non-accrual multifamily residential and commercial real estate loans, along with non-accrual one- to four-family loans in excess of the FNMA Limits, to be impaired. Non-accrual one-to four-family loans equal to or less than the FNMA Limits, as well as all consumer loans, are considered homogeneous loan pools and are not required to be evaluated individually for impairment unless considered a TDR.

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

Please refer to Note 9 for tabular information related to impaired loans.

### Delinquent Serviced Loans Subject to a Recourse Obligation

As of September 30, 2013 and December 31, 2012, the Bank serviced a pool of multifamily loans sold to FNMA, and retained an obligation (off-balance sheet contingent liability) to absorb a portion of any losses (as defined in the seller/servicer agreement) incurred by FNMA in connection with the loans sold (the "First Loss Position").

Under the terms of its seller/servicer agreement with FNMA, the Bank is obligated to remit to FNMA all monthly principal and interest payments under the original terms of the sold loans until the earliest of the following events: (i) the Bank re-acquires the loan from FNMA or the loan enters OREO status; (ii) the entire pool of loans sold to FNMA have either been fully satisfied or enter OREO status; or (iii) the First Loss Position is fully exhausted.

At September 30, 2013, within the pool of multifamily loans sold to FNMA, there were no loans 90 days or more delinquent and one \$401 loan delinquent between 30 and 89 days. At December 31, 2012, within the pool of multifamily loans sold to FNMA, there was one \$474 loan 90 days or more delinquent and one \$229 loan delinquent between 30 and 89 days.

#### 9. ALLOWANCE FOR LOAN LOSSES AND LIABILITY FOR FIRST LOSS POSITION

The allowance for loan losses may consist of specific and general components. The Bank's periodic evaluation of its allowance for loan losses (specific or general) is comprised of four primary components: (1) impaired loans; (2) non-impaired substandard loans; (3) non-impaired special mention loans; and (4) pass graded loans. Within these components, the Company has identified the following portfolio segments for purposes of assessing its allowance for loan losses (specific or general): (1) real estate loans; and (2) consumer loans. Within these segments, the Bank analyzes the allowance for loan losses based upon the underlying collateral type (classes). Consumer loans represent a nominal portion of the Company's loan portfolio, and were thus evaluated in aggregate as of both September 30, 2013 and December 31, 2012.

15

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### Impaired Loan Component

All multifamily residential, mixed use, commercial real estate and construction loans that are deemed to meet the definition of impaired are individually evaluated for impairment. In addition, all cooperative unit and one- to four-family residential real estate loans in excess of the FNMA Limits are individually evaluated for impairment.

Impairment is typically measured using the difference between the outstanding loan principal balance and either: (1) the likely realizable value of a note sale; (2) the fair value of the underlying collateral, net of likely disposal costs, if repayment is expected solely from liquidation of the collateral; or (3) the present value of estimated future cash flows using the loan's pre-modification rate in the case of a TDR. For impaired loans on non-accrual status, either of the initial two measurements is utilized.

All TDRs are considered impaired loans and are evaluated individually for measurable impairment, if any. If a TDR is substantially performing in accordance with its restructured terms, management will look to either the present value of the expected cash flows from the debt service or the potential net liquidation proceeds of the underlying collateral property in measuring impairment (whichever is deemed most appropriate under the circumstances). If a TDR has re-defaulted, the likely realizable net proceeds from either a note sale or the liquidation of the collateral is generally considered when measuring impairment. While measured impairment is generally charged off immediately, impairment attributable to a reduction in the present value of expected cash flows of a performing TDR was reflected as an allocated reserve within the allowance for loan losses at both September 30, 2013 and December 31, 2012.

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

### Non-Impaired Substandard Loan Component

At both September 30, 2013 and December 31, 2012, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Substandard reflected expected loss percentages on the Bank's pool of such loans that were derived based upon an analysis of historical losses over a measurement timeframe.

The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Substandard loans at September 30, 2013 and December 31, 2012. Based upon this methodology, increases or decreases in the amount of either non-impaired Substandard loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive the expected loss percentage, would impact the level of reserves determined on non-impaired Substandard loans. As a result, the allowance for loan losses associated with non-impaired Substandard loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Substandard loans was \$31 at September 30, 2013 and \$795 at December 31, 2012. The decline resulted primarily from a reduction of \$5,568 in the balance of such loans from December 31, 2012 to September 30, 2013, as well as the application of a lower loss percentage on these loans at September 30, 2013 compared to December 31, 2012 under the methodology employed.

All non-impaired Substandard loans were deemed sufficiently well secured and performing to have remained on accrual status both prior and subsequent to their downgrade to the Substandard internal loan grade.

### Non-Impaired Special Mention Loan Component

At both September 30, 2013 and December 31, 2012, the reserve allocated within the allowance for loan losses associated with non-impaired loans internally classified as Special Mention reflected an expected loss percentage on the Bank's pool of such loans that was derived based upon an analysis of historical losses over a measurement timeframe. The loss percentage resulting from this analysis was then applied to the aggregate pool of non-impaired Special Mention loans at September 30, 2013 and December 31, 2012. Based upon this methodology, increases or

decreases in the amount of either non-impaired Special Mention loans or charge-offs associated with such loans, or a change in the measurement timeframe utilized to derive the expected loss percentage, would impact the level of reserves determined on non-impaired Special Mention loans. As a result, the allowance for loan losses associated with non-impaired Special Mention loans is subject to volatility.

The portion of the allowance for loan losses attributable to non-impaired Special Mention loans increased from \$145 at December 31, 2012 to \$148 at September 30, 2013, due to an increase of \$12,644 in the balance of such loans, that was offset by a reduction in the estimated loss percentage applied to such loans, from December 31, 2012 to September 30, 2013.

#### Pass Graded Loan Component

The Bank initially looks to the underlying collateral type when determining the allowance for loan losses associated with pass graded real estate loans. The following underlying collateral types are analyzed separately: 1) one- to four family residential and cooperative unit; 2) multifamily residential and residential mixed use; 3) mixed use commercial real estate, 4) commercial real estate;

and 5) construction and land acquisition. Within the analysis of each underlying collateral type, the following elements are additionally considered and provided weighting in determining the allowance for loan losses for pass graded real estate loans:

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

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

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

(ii) Economic conditions - At both September 30, 2013 and December 31, 2012, the Bank assigned a loss allocation to its entire pass graded real estate loan portfolio based, in part, upon a review of economic conditions affecting the local real estate market. Specifically, the Bank considered both the level of, and recent trends in: 1) the local and national unemployment rate, 2) residential and commercial vacancy rates, 3) real estate sales and pricing, and 4) delinquencies in the Bank's loan portfolio.

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

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

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

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

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

#### Consumer Loans

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



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The following table presents data regarding the allowance for loan losses and loans evaluated for impairment by class of loan within the real estate loan segment as well as for the aggregate consumer loan segment:

At or for the Three Months Ended September 30, 2013

|                                                                               | Real Estate Loans                                    |                                                   |                                  |                        |              |                   | Consumer Loans |
|-------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------|----------------------------------|------------------------|--------------|-------------------|----------------|
|                                                                               | One- to Four Family Residential and Cooperative Unit | Multifamily Residential and Mixed Use Residential | Mixed Use Commercial Real Estate | Commercial Real Estate | Construction | Total Real Estate |                |
| Beginning balance                                                             | \$352                                                | \$14,620                                          | \$2,215                          | \$3,279                | \$12         | \$20,478          | \$24           |
| Provision (credit) for loan losses                                            | (75 )                                                | 1,382                                             | (443 )                           | (618 )                 | (11 )        | 235               | 5              |
| Charge-offs                                                                   | (11 )                                                | (205 )                                            | -                                | (1 )                   | -            | (217 )            | (6 )           |
| Recoveries                                                                    | 8                                                    | 13                                                | -                                | -                      | -            | 21                | -              |
| Ending balance                                                                | \$274                                                | \$15,810                                          | \$1,772                          | \$2,660                | \$1          | \$20,517          | \$23           |
| Ending balance – loans individually evaluated for impairment                  | \$1,203                                              | \$3,891                                           | \$711                            | \$35,277               | \$-          | \$41,082          | \$-            |
| Ending balance – loans collectively evaluated for impairment                  | 77,301                                               | 2,860,933                                         | 334,939                          | 352,385                | 299          | 3,625,857         | 2,109          |
| Allowance balance associated with loans individually evaluated for impairment | 6                                                    | -                                                 | -                                | 484                    | -            | 490               | -              |
| Allowance balance associated with loans collectively evaluated for impairment | 268                                                  | 15,810                                            | 1,772                            | 2,176                  | 1            | 20,027            | 23             |
| Total Ending balance                                                          | \$274                                                | \$15,810                                          | \$1,772                          | \$2,660                | \$1          | \$20,517          | \$23           |
| At December 31, 2012                                                          |                                                      |                                                   |                                  |                        |              |                   |                |
| Ending balance – loans individually evaluated for impairment                  | \$1,291                                              | \$2,460                                           | \$1,900                          | \$47,493               | \$-          | \$53,144          | \$-            |
| Ending balance – loans collectively evaluated for impairment                  | 90,585                                               | 2,673,909                                         | 338,233                          | 347,038                | 476          | 3,450,241         | 2,423          |
| Allowance balance associated with loans individually evaluated for impairment | 7                                                    | -                                                 | -                                | 513                    | -            | 520               | -              |
| Allowance balance associated with loans collectively evaluated for impairment | 337                                                  | 14,299                                            | 2,474                            | 2,869                  | 24           | 20,003            | 27             |
| Total Ending balance                                                          | \$344                                                | \$14,299                                          | \$2,474                          | \$3,382                | \$24         | \$20,523          | \$27           |

At or for the Three Months Ended September 30, 2012

| Real Estate Loans | Consumer Loans |
|-------------------|----------------|
|-------------------|----------------|

|                                    | One-<br>to<br>Four<br>Family<br>Residential<br>and<br>Cooperatives<br>Unit | Multifamily<br>Residential<br>and<br>Mixed Use<br>Residential<br>Mixed Use | Mixed Use<br>Commercial<br>Real Estate | Commercial<br>Real Estate | Construction | Total<br>Real<br>Estate |       |
|------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------|---------------------------|--------------|-------------------------|-------|
| Beginning balance                  | \$258                                                                      | \$ 14,551                                                                  | \$ 2,181                               | \$ 3,230                  | \$ -         | \$20,220                | \$ 23 |
| Provision (credit) for loan losses | 557                                                                        | (761 )                                                                     | 143                                    | 157                       | 27           | 123                     | 3     |
| Charge-offs                        | (134)                                                                      | (242 )                                                                     | (8 )                                   | (14 )                     | -            | (398 )                  | -     |
| Recoveries                         | (1 )                                                                       | 686                                                                        | -                                      | 36                        | -            | 723                     | -     |
| Ending balance                     | \$682                                                                      | \$ 14,234                                                                  | \$ 2,316                               | \$ 3,409                  | \$ 27        | \$20,668                | \$ 26 |

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At or for the Nine Months Ended September 30, 2013

|                                    | Real Estate Loans                                                          |                                                                            |                                        |                           |                            |                         | Consumer<br>Loans |
|------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------|---------------------------|----------------------------|-------------------------|-------------------|
|                                    | One-<br>to<br>Four<br>Family<br>Residential<br>and<br>Cooperatives<br>Unit | Multifamily<br>Residential<br>and<br>Mixed Use<br>Residential<br>Mixed Use | Mixed Use<br>Commercial<br>Real Estate | Commercial<br>Real Estate | Commercial<br>Construction | Total<br>Real<br>Estate |                   |
| Beginning balance                  | \$344                                                                      | \$ 14,299                                                                  | \$ 2,474                               | \$ 3,382                  | \$ 24                      | \$20,523                | \$ 27             |
| Provision (credit) for loan losses | 29                                                                         | 1,840                                                                      | (716 )                                 | (719 )                    | (23 )                      | 411                     | 14                |
| Charge-offs                        | (110)                                                                      | (362 )                                                                     | (15 )                                  | (5 )                      | -                          | (492 )                  | (18 )             |
| Recoveries                         | 11                                                                         | 33                                                                         | 29                                     | 2                         | -                          | 75                      | -                 |
| Ending balance                     | \$274                                                                      | \$ 15,810                                                                  | \$ 1,772                               | \$ 2,660                  | \$ 1                       | \$20,517                | \$ 23             |

At or for the Nine Months Ended September 30, 2012

|                                                | Real Estate Loans                                                          |                                                                            |                                        |                           |                            |                         | Consumer<br>Loans |
|------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------|---------------------------|----------------------------|-------------------------|-------------------|
|                                                | One-<br>to<br>Four<br>Family<br>Residential<br>and<br>Cooperatives<br>Unit | Multifamily<br>Residential<br>and<br>Mixed Use<br>Residential<br>Mixed Use | Mixed Use<br>Commercial<br>Real Estate | Commercial<br>Real Estate | Commercial<br>Construction | Total<br>Real<br>Estate |                   |
| Beginning balance                              | \$480                                                                      | \$ 14,313                                                                  | \$ 1,528                               | \$ 3,783                  | \$ 124                     | \$20,228                | \$ 26             |
| Provision (credit) for loan losses             | 959                                                                        | 1,477                                                                      | 1,442                                  | 64                        | (94 )                      | 3,848                   | 10                |
| Charge-offs                                    | (774)                                                                      | (2,381 )                                                                   | (670 )                                 | (500 )                    | (3 )                       | (4,328 )                | (10 )             |
| Recoveries                                     | 17                                                                         | 773                                                                        | 11                                     | 37                        | -                          | 838                     | -                 |
| Transfer from the reserve for loan commitments | -                                                                          | 52                                                                         | 5                                      | 25                        | -                          | 82                      | -                 |
| Ending balance                                 | \$682                                                                      | \$ 14,234                                                                  | \$ 2,316                               | \$ 3,409                  | \$ 27                      | \$20,668                | \$ 26             |

The following tables summarize impaired real estate loans as of or for the periods indicated (by collateral type within the real estate loan segment):

| At September 30, 2013                                |                                                       |                                               |                                                                                                   |
|------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------|
|                                                      | Unpaid<br>Principal<br>Balance<br>at<br>Period<br>End | Recorded<br>Investment<br>at Period<br>End(1) | Reserve<br>Balance<br>Allocated<br>within the<br>Allowance<br>for Loan<br>Losses at<br>Period End |
| One- to Four Family Residential and Cooperative Unit |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | \$ 1,070                                              | \$ 991                                        | \$ -                                                                                              |
| With an allocated reserve                            | 256                                                   | 212                                           | 6                                                                                                 |
| Multifamily Residential and Residential Mixed Use    |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | 4,040                                                 | 3,891                                         | -                                                                                                 |
| With an allocated reserve                            | -                                                     | -                                             | -                                                                                                 |
| Mixed Use Commercial Real Estate                     |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | 711                                                   | 711                                           | -                                                                                                 |
| With an allocated reserve                            | -                                                     | -                                             | -                                                                                                 |
| Commercial Real Estate                               |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | 21,269                                                | 20,156                                        | -                                                                                                 |
| With an allocated reserve                            | 15,121                                                | 15,121                                        | 484                                                                                               |
| Construction                                         |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | -                                                     | -                                             | -                                                                                                 |
| With an allocated reserve                            | -                                                     | -                                             | -                                                                                                 |
| Total                                                |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | \$ 27,090                                             | \$ 25,749                                     | \$ -                                                                                              |
| With an allocated reserve                            | \$ 15,377                                             | \$ 15,333                                     | \$ 490                                                                                            |

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

| At December 31, 2012                                 |                                                       |                                               |                                                                                                   |
|------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------|
|                                                      | Unpaid<br>Principal<br>Balance<br>at<br>Period<br>End | Recorded<br>Investment<br>at Period<br>End(1) | Reserve<br>Balance<br>Allocated<br>within the<br>Allowance<br>for Loan<br>Losses at<br>Period End |
| One- to Four Family Residential and Cooperative Unit |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | \$ 1,079                                              | \$ 1,079                                      | \$ -                                                                                              |
| With an allocated reserve                            | 258                                                   | 212                                           | 7                                                                                                 |
| Multifamily Residential and Residential Mixed Use    |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | 2,767                                                 | 2,460                                         | -                                                                                                 |
| With an allocated reserve                            | -                                                     | -                                             | -                                                                                                 |
| Mixed Use Commercial Real Estate                     |                                                       |                                               |                                                                                                   |
| With no allocated reserve                            | 1,900                                                 | 1,900                                         | -                                                                                                 |
| With an allocated reserve                            | -                                                     | -                                             | -                                                                                                 |

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|                           |          |           |        |
|---------------------------|----------|-----------|--------|
| Commercial Real Estate    |          |           |        |
| With no allocated reserve | 33,416   | 32,217    | -      |
| With an allocated reserve | 15,276   | 15,276    | 513    |
| Construction              |          |           |        |
| With no allocated reserve | -        | -         | -      |
| With an allocated reserve | -        | -         | -      |
| Total                     |          |           |        |
| With no allocated reserve | \$39,162 | \$ 37,656 | \$ -   |
| With an allocated reserve | \$15,534 | \$ 15,488 | \$ 520 |

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

|                                                            | Three Months<br>Ended<br>September 30,<br>2013 |                       | Three Months<br>Ended<br>September 30, 2012 |                       | Nine Months Ended<br>September 30, 2013 |                       | Nine Months Ended<br>September 30, 2012 |                       |
|------------------------------------------------------------|------------------------------------------------|-----------------------|---------------------------------------------|-----------------------|-----------------------------------------|-----------------------|-----------------------------------------|-----------------------|
|                                                            | Average Interest<br>Recorded Income            | Investment Recognized | Average Interest<br>Recorded Income         | Investment Recognized | Average Interest<br>Recorded Income     | Investment Recognized | Average Interest<br>Recorded Income     | Investment Recognized |
| One- to Four Family<br>Residential and Cooperative<br>Unit |                                                |                       |                                             |                       |                                         |                       |                                         |                       |
| With no allocated reserve                                  | \$993                                          | \$ 11                 | \$ 629                                      | \$ 15                 | \$1,016                                 | \$ 27                 | \$814                                   | \$ 48                 |
| With an allocated reserve                                  | 212                                            | 5                     | 212                                         | 5                     | 212                                     | 14                    | 511                                     | 14                    |
| Multifamily Residential and<br>Residential Mixed Use       |                                                |                       |                                             |                       |                                         |                       |                                         |                       |
| With no allocated reserve                                  | 3,552                                          | 49                    | 4,787                                       | 49                    | 2,977                                   | 129                   | 6,178                                   | 305                   |
| With an allocated reserve                                  | -                                              | -                     | -                                           | -                     | -                                       | -                     | 525                                     | -                     |
| Mixed Use Commercial Real<br>Estate                        |                                                |                       |                                             |                       |                                         |                       |                                         |                       |
| With no allocated reserve                                  | 1,289                                          | 17                    | 1,459                                       | 12                    | 1,590                                   | 110                   | 2,670                                   | 56                    |
| With an allocated reserve                                  | -                                              | -                     | -                                           | -                     | -                                       | -                     | 240                                     | -                     |
| Commercial Real Estate<br>Construction                     |                                                |                       |                                             |                       |                                         |                       |                                         |                       |
| With no allocated reserve                                  | 22,991                                         | 187                   | 33,596                                      | 404                   | 26,682                                  | 949                   | 28,648                                  | 1,318                 |
| With an allocated reserve                                  | 15,155                                         | 275                   | 15,284                                      | 189                   | 15,199                                  | 671                   | 21,290                                  | 567                   |
| With no allocated reserve                                  | -                                              | -                     | -                                           | -                     | -                                       | -                     | -                                       | -                     |
| With an allocated reserve                                  | -                                              | -                     | -                                           | -                     | -                                       | -                     | -                                       | -                     |
| Total                                                      |                                                |                       |                                             |                       |                                         |                       |                                         |                       |
| With no allocated reserve                                  | \$28,825                                       | \$ 264                | \$40,471                                    | \$ 480                | \$32,265                                | \$ 1,215              | \$38,310                                | \$ 1,727              |
| With an allocated reserve                                  | \$15,367                                       | \$ 280                | \$15,496                                    | \$ 194                | \$15,411                                | \$ 685                | \$22,566                                | \$ 581                |

#### Reserve Liability for First Loss Position

At both September 30, 2013 and December 31, 2012, the Bank serviced a pool of loans that it sold to FNMA and was subject to the First Loss Position. The Bank maintains a reserve liability in relation to the First Loss Position that reflects estimated losses on this loan pool at each period end. For performing loans within the FNMA serviced pool, the reserve recognized is based upon the historical loss experience on this loan pool. For problem loans within the pool, the estimated losses are determined in a manner consistent with impaired loans within the Bank's loan portfolio.

The following is a summary of the aggregate balance of multifamily loans serviced for FNMA, the period-end First Loss Position associated with these loans and activity in the related liability:

|                                                                          | At or for the Three<br>Months Ended<br>September 30,<br>2013 |           | At or for the Nine<br>Months Ended<br>September 30,<br>2012 |           |
|--------------------------------------------------------------------------|--------------------------------------------------------------|-----------|-------------------------------------------------------------|-----------|
| Outstanding balance of multifamily loans serviced for FNMA at period end | \$216,073                                                    | \$279,830 | \$216,073                                                   | \$279,830 |

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|                                                   |          |          |          |          |
|---------------------------------------------------|----------|----------|----------|----------|
| Total First Loss Position at end of period        | 15,428   | 16,356   | 15,428   | 16,356   |
| Liability on the First Loss Position              |          |          |          |          |
| Balance at beginning of period                    | \$ 1,188 | \$ 1,684 | \$ 1,383 | \$ 2,993 |
| Credit for losses on problem loans <sup>(1)</sup> | (50 )    | (140 )   | (245 )   | (1,107 ) |
| Charge-offs and other net reductions in balance   | (38 )    | -        | (38 )    | (342 )   |
| Balance at period end                             | \$ 1,100 | \$ 1,544 | \$ 1,100 | \$ 1,544 |

(1) Amount recognized as a component of mortgage banking income during the period.

21

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## 10. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The following is a summary of major categories of securities owned by the Company excluding trading securities at September 30, 2013:

|                                                             | Unrealized Gains or Losses Recognized in Accumulated Other Comprehensive Loss |                     |            |            |                            |         |              |         |
|-------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------|------------|------------|----------------------------|---------|--------------|---------|
|                                                             | Purchase                                                                      | Amortized           | Recorded   |            |                            |         |              |         |
|                                                             | /                                                                             | Amortized/          |            |            |                            |         |              |         |
|                                                             | Historical                                                                    | Historical          | Non-Credit | Unrealized | Unrealized                 | Book    | Other        | Fair    |
|                                                             | Cost                                                                          | Cost <sup>(1)</sup> | OTTI       | Gains      | Losses                     | Value   | Unrecognized | Value   |
| Investment securities held-to-maturity:                     |                                                                               |                     |            |            |                            |         |              |         |
| Pooled bank trust preferred securities ("TRUPS")            | \$16,316                                                                      | \$7,369             | \$ (609 )  | -          | \$ (1,138 ) <sup>(2)</sup> | \$5,622 | \$ 516       | \$6,138 |
| Investment securities available for sale:                   |                                                                               |                     |            |            |                            |         |              |         |
| Registered Mutual Funds                                     | 2,797                                                                         | 2,691               | -          | 670        | (10 )                      | 3,351   | -            | 3,351   |
| Agency notes                                                | 15,070                                                                        | 15,070              | -          | 47         | -                          | 15,117  | -            | 15,117  |
| Pass-through MBS issued by GSEs                             | 30,727                                                                        | 30,727              | -          | 1,588      | (10 )                      | 32,305  | -            | 32,305  |
| Collateralized mortgage obligations ("CMOs") issued by GSEs | 531                                                                           | 531                 | -          | 4          | -                          | 535     | -            | 535     |
| Private issuer pass through MBS                             | 709                                                                           | 709                 | -          | 19         | -                          | 728     | -            | 728     |
| Private issuer CMOs                                         | 647                                                                           | 647                 | -          | 11         | -                          | 658     | -            | 658     |

(1) Amount represents the purchase amortized / historical cost less any credit-related OTTI charges recognized through earnings.

(2) Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

The following is a summary of major categories of securities owned by the Company at December 31, 2012:

|                                           | Unrealized Gains or Losses Recognized in Accumulated Other Comprehensive Loss |                     |            |            |                            |         |              |         |
|-------------------------------------------|-------------------------------------------------------------------------------|---------------------|------------|------------|----------------------------|---------|--------------|---------|
|                                           | Purchase                                                                      | Amortized           | Recorded   |            |                            |         |              |         |
|                                           | /                                                                             | Amortized/          |            |            |                            |         |              |         |
|                                           | Historical                                                                    | Historical          | Non-Credit | Unrealized | Unrealized                 | Book    | Other        | Fair    |
|                                           | Cost                                                                          | Cost <sup>(1)</sup> | OTTI       | Gains      | Losses                     | Value   | Unrecognized | Value   |
| Investment securities held-to-maturity:   |                                                                               |                     |            |            |                            |         |              |         |
| TRUPS                                     | \$16,774                                                                      | \$7,829             | \$ (634 )  | -          | \$ (1,268 ) <sup>(2)</sup> | \$5,927 | \$ 340       | \$6,267 |
| Investment securities available for sale: |                                                                               |                     |            |            |                            |         |              |         |
| Registered Mutual Funds                   | 2,904                                                                         | 2,556               | -          | 449        | -                          | 3,005   | -            | 3,005   |
| Agency notes                              | 29,820                                                                        | 29,820              | -          | 125        | -                          | 29,945  | -            | 29,945  |
| Pass-through MBS issued by GSEs           | 43,142                                                                        | 43,142              | -          | 1,561      | (25 )                      | 44,678  | -            | 44,678  |

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|                             |       |       |   |    |      |       |   |       |
|-----------------------------|-------|-------|---|----|------|-------|---|-------|
| CMOs issued by GSEs         | 2,436 | 2,436 | - | 26 | -    | 2,462 | - | 2,462 |
| Private issuer pass through |       |       |   |    |      |       |   |       |
| MBS                         | 962   | 962   | - | -  | (7 ) | 955   | - | 955   |
| Private issuer CMOs         | 908   | 908   | - | 18 | -    | 926   | - | 926   |

(1) Amount represents the purchase amortized / historical cost less any credit-related OTTI charges recognized through earnings.

Amount represents the unamortized portion of the unrealized loss that was recognized in accumulated other (2)comprehensive loss on September 1, 2008 (the day on which these securities were transferred from available-for-sale to held-to-maturity).

At September 30, 2013, the agency note investments in the table above had contractual maturities as follows:

|                                          | Amortized | Estimated |
|------------------------------------------|-----------|-----------|
|                                          | Cost      | Fair      |
|                                          |           | Value     |
| Due after one year through three years   | \$ 15,000 | \$ 15,047 |
| Due after three years through five years | 70        | 70        |
| TOTAL                                    | \$ 15,070 | \$ 15,117 |

The held-to-maturity TRUPS had a weighted average term to maturity of 21.2 years at September 30, 2013. At September 30, 2013, MBS available-for-sale (which included pass-through MBS issued by GSEs, CMOs issued by GSEs, one private issuer pass through MBS and one private issuer CMO) possessed a weighted average contractual maturity of 16.9 years and a weighted average estimated duration of 1.3 years. There were no sales of either investment securities held-to-maturity or MBS available-for-sale during the nine months ended September 30, 2013 or 2012.

There were no sales of investment securities available-for-sale during the three months ended September 30, 2013 and 2012. Proceeds from the sales of investment securities available-for-sale totaled \$366 during the nine months ended September 30, 2013. A net gain of \$110 was recognized on these sales. Proceeds from the sales of investment securities available-for-sale totaled \$313 during the nine months ended September 30, 2012. A net gain of \$44 was recognized on these sales.

As of each reporting period through September 30, 2013, the Company has applied the protocol established by ASC 320-10-65 ("ASC 320-10-65") in order to determine whether OTTI existed for its TRUPS and/or to measure, for TRUPS that have been determined to be other than temporarily impaired, the credit related and non-credit related components of OTTI. As of September 30, 2013,

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five TRUPS were determined to meet the criteria for OTTI based upon this analysis. At September 30, 2013, these five securities had credit ratings ranging from "C" to "Caa3."

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

|                                                   | At or for the Three Months Ended September 30, 2013 |               |         | At or for the Three Months Ended September 30, 2012 |               |         |
|---------------------------------------------------|-----------------------------------------------------|---------------|---------|-----------------------------------------------------|---------------|---------|
|                                                   | Non-Credit                                          |               |         | Non-Credit                                          |               |         |
|                                                   | Credit                                              | OTTI          |         | Credit                                              | OTTI          |         |
|                                                   | Related                                             | Recognized in |         | Related                                             | Recognized in |         |
|                                                   | OTTI                                                | Accumulated   |         | OTTI                                                | Accumulated   |         |
|                                                   | Recognized                                          | Other         |         | Recognized                                          | Other         |         |
|                                                   | in                                                  | Comprehensive | Total   | in                                                  | Comprehensive | Total   |
|                                                   | Earnings                                            | Loss          | OTTI    | Earnings                                            | Loss          | OTTI    |
| Cumulative balance at the beginning of the period | \$8,947                                             | \$ 617        | \$9,564 | \$8,945                                             | \$ 655        | \$9,600 |
| OTTI recognized on securities with previous OTTI  | -                                                   | -             | -       | -                                                   | -             | -       |
| Reductions and transfers to credit-related OTTI   | -                                                   | -             | -       | -                                                   | -             | -       |
| Amortization of previously recognized OTTI        | -                                                   | (8 )          | (8 )    | -                                                   | (14 )         | (14 )   |
| Cumulative balance at end of the period           | \$8,947                                             | \$ 609        | \$9,556 | \$8,945                                             | \$ 641        | \$9,586 |

  

|                                                   | At or for the Nine Months Ended September 30, 2013 |               |         | At or for the Nine Months Ended September 30, 2012 |               |         |
|---------------------------------------------------|----------------------------------------------------|---------------|---------|----------------------------------------------------|---------------|---------|
|                                                   | Non-Credit                                         |               |         | Non-Credit                                         |               |         |
|                                                   | Credit                                             | OTTI          |         | Credit                                             | OTTI          |         |
|                                                   | Related                                            | Recognized in |         | Related                                            | Recognized in |         |
|                                                   | OTTI                                               | Accumulated   |         | OTTI                                               | Accumulated   |         |
|                                                   | Recognized                                         | Other         |         | Recognized                                         | Other         |         |
|                                                   | in                                                 | Comprehensive | Total   | in                                                 | Comprehensive | Total   |
|                                                   | Earnings                                           | Loss          | OTTI    | Earnings                                           | Loss          | OTTI    |
| Cumulative balance at the beginning of the period | \$8,945                                            | \$ 634        | \$9,579 | \$8,974                                            | \$ 930        | \$9,904 |
| OTTI recognized on securities with previous OTTI  | -                                                  | -             | -       | 181                                                | 6             | 187     |
| Reductions and transfers to credit-related OTTI   | -                                                  | -             | -       | -                                                  | (181 )        | (181 )  |
| Amortization of previously recognized OTTI        | 2                                                  | (25 )         | (23 )   | (210 )                                             | (114 )        | (324 )  |
| Cumulative balance at end of the period           | \$8,947                                            | \$ 609        | \$9,556 | \$8,945                                            | \$ 641        | \$9,586 |

The following table summarizes the gross unrealized losses and fair value of investment securities as of September 30, 2013, aggregated by investment category and the length of time the securities were in a continuous unrealized loss position:

|                              | Less than 12 Months Consecutive Unrealized Losses |            | 12 Months or More Consecutive Unrealized Losses |            | Total         |            |
|------------------------------|---------------------------------------------------|------------|-------------------------------------------------|------------|---------------|------------|
|                              | Gross                                             |            | Gross                                           |            | Gross         |            |
|                              | Unrecognized/                                     |            | Unrecognized/                                   |            | Unrecognized/ |            |
|                              | Fair                                              | Unrealized | Fair                                            | Unrealized | Fair          | Unrealized |
|                              | Value                                             | Losses     | Value                                           | Losses     | Value         | Losses     |
| Held-to-Maturity Securities: |                                                   |            |                                                 |            |               |            |
| TRUPS <sup>(1)</sup>         | \$-                                               | \$ -       | \$4,004                                         | \$ 974     | \$4,004       | \$ 974     |

Available for Sale Securities

|                                 |     |    |   |   |     |    |
|---------------------------------|-----|----|---|---|-----|----|
| Registered Mutual Funds         | 539 | 10 | - | - | 539 | 10 |
| Pass-through MBS issued by GSEs | 307 | 10 | - | - | 307 | 10 |

(1) At September 30, 2013, the recorded balance of these securities was \$3,840. This balance reflected the remaining unrealized loss of \$1,138 that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day these securities were transferred from available-for-sale to held-to-maturity). In accordance with both ASC 320-10-35-17 and 320-10-65, this unrealized loss is currently being amortized over the remaining estimated life of these securities.

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

At September 30, 2013, impairment of two of the TRUPS, with an amortized cost of \$5,000, was deemed temporary. These securities remained in an unrealized loss position for 12 or more consecutive months, and their cumulative unrealized loss was \$1,315 at September 30, 2013, reflecting both illiquidity in the marketplace and concerns over future bank failures. At September 30, 2013, both of these securities had ratings ranging from "BB-" to "A." Despite both the significant decline in market value and the duration of their impairment, management believed that the unrealized losses on these securities at September 30, 2013 were temporary, and that the full value of the investments would be realized once the market dislocations have been removed, or as the securities continued to make their contractual payments of principal and interest. In making this determination, management considered the following:

- Based upon an internal review of the collateral backing the TRUPS portfolio, which accounted for current and prospective deferrals, the securities could reasonably be expected to continue making all contractual payments
- The Company had the intent and ability to hold these securities until they fully recover their impairment, evidenced by the election to reclassify them as held-to-maturity in 2008

- There were no cash or working capital requirements nor contractual or regulatory obligations that would compel the Company to sell these securities prior to their forecasted recovery or maturity
- Both securities have a pool of underlying issuers comprised primarily of banks
- Neither of the securities have exposure to real estate investment trust issued debt (which has experienced high default rates)
- Both securities feature either a mandatory auction or a de-leveraging mechanism that could result in principal repayments to the Bank prior to the stated maturity of the security
- Both securities are adequately collateralized

The following table summarizes the gross unrealized losses and fair value of investment securities and MBS as of December 31, 2012, aggregated by investment category and the length of time that the securities were in a continuous unrealized loss position:

|                                                                     | Less than 12<br>Months Consecutive<br>Unrealized Losses |                                                | 12 Months or More<br>Consecutive<br>Unrealized Losses |                                                | Total         |                                                |
|---------------------------------------------------------------------|---------------------------------------------------------|------------------------------------------------|-------------------------------------------------------|------------------------------------------------|---------------|------------------------------------------------|
|                                                                     | Fair<br>Value                                           | Gross<br>Unrecognized/<br>Unrealized<br>Losses | Fair<br>Value                                         | Gross<br>Unrecognized/<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrecognized/<br>Unrealized<br>Losses |
| Held-to-Maturity Securities:                                        |                                                         |                                                |                                                       |                                                |               |                                                |
| TRUPS <sup>(1)</sup>                                                | \$-                                                     | \$ -                                           | \$3,705                                               | \$ 1,732                                       | \$3,705       | \$ 1,732                                       |
| Available-for-Sale Securities:                                      |                                                         |                                                |                                                       |                                                |               |                                                |
| Federal Home Loan Mortgage Corporation<br>pass-through certificates | 5,867                                                   | 25                                             | -                                                     | -                                              | 5,867         | 25                                             |
| Private label MBS                                                   | -                                                       | -                                              | 955                                                   | 7                                              | 955           | 7                                              |

(1) At December 31, 2012, the recorded balance of these securities was \$4,170. This balance reflected the remaining unrealized loss of \$1,268 that was recognized in accumulated other comprehensive loss on September 1, 2008 (the day these securities were transferred from available-for-sale to held-to-maturity). In accordance with both ASC 320-10-35-17 and 320-10-65, this unrealized loss is currently being amortized over the remaining estimated life of these securities.

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy established under ASC 820-10 is summarized as follows:

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

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

**Level 3 Inputs** – Significant unobservable inputs for the asset or liability. Significant unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Significant unobservable inputs shall be used to measure fair value to the

extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the consolidated statements of financial condition at fair value as of the date indicated by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

24

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## Assets Measured at Fair Value on a Recurring Basis at September 30, 2013

| Description                                   | Total   | Fair Value Measurements<br>Using |         |             |
|-----------------------------------------------|---------|----------------------------------|---------|-------------|
|                                               |         | Level                            | Level 2 | Level       |
|                                               |         | 1<br>Inputs                      | Inputs  | 3<br>Inputs |
| Trading securities (Registered Mutual Funds): |         |                                  |         |             |
| Domestic Equity Mutual Funds                  | \$1,217 | \$1,217                          | \$-     | \$ -        |
| International Equity Mutual Funds             | 156     | 156                              | -       | -           |
| Fixed Income Mutual Funds                     | 3,889   | 3,889                            | -       | -           |
| Investment securities available-for-sale:     |         |                                  |         |             |
| Agency notes                                  | 15,117  | -                                | 15,117  | -           |
| Registered Mutual Funds:                      |         |                                  |         |             |
| Domestic Equity Mutual Funds                  | 1,836   | 1,836                            | -       | -           |
| International Equity Mutual Funds             | 397     | 397                              | -       | -           |
| Fixed Income Mutual Funds                     | 1,118   | 1,118                            | -       | -           |
| Pass-through MBS issued by GSEs               | 32,305  | -                                | 32,305  | -           |
| CMOs issued by GSEs                           | 535     | -                                | 535     | -           |
| Private issuer pass through MBS               | 728     | -                                | 728     | -           |
| Private issuer CMOs                           | 658     | -                                | 658     | -           |

## Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

| Description                                   | Total  | Fair Value Measurements<br>Using |         |             |
|-----------------------------------------------|--------|----------------------------------|---------|-------------|
|                                               |        | Level                            | Level 2 | Level       |
|                                               |        | 1<br>Inputs                      | Inputs  | 3<br>Inputs |
| Trading securities (Registered Mutual Funds): |        |                                  |         |             |
| Domestic Equity Mutual Funds                  | \$930  | \$930                            | \$-     | \$ -        |
| International Equity Mutual Funds             | 129    | 129                              | -       | -           |
| Fixed Income Mutual Funds                     | 3,815  | 3,815                            | -       | -           |
| Investment securities available-for-sale:     |        |                                  |         |             |
| Agency notes                                  | 29,945 | -                                | 29,945  | -           |
| Registered Mutual Funds:                      |        |                                  |         |             |
| Domestic Equity Mutual Funds                  | 1,502  | 1,502                            | -       | -           |
| International Equity Mutual Funds             | 358    | 358                              | -       | -           |
| Fixed Income Mutual Funds                     | 1,145  | 1,145                            | -       | -           |
| Pass-through MBS issued by GSEs               | 44,678 | -                                | 44,678  | -           |
| CMOs issued by GSEs                           | 2,462  | -                                | 2,462   | -           |
| Private issuer pass through MBS               | 955    | -                                | 955     | -           |
| Private issuer CMOs                           | 926    | -                                | 926     | -           |

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

vary on any given day based on market conditions.

The agency notes owned by the Company possessed the highest possible credit rating published by at least one established credit rating agency as of both September 30, 2013 and December 31, 2012. Obtaining market values as of September 30, 2013 and December 31, 2012 for these securities utilizing significant observable inputs was not difficult due to their continued marketplace demand. The pass-through MBS and CMOs issued by GSEs all possessed the highest possible credit rating published by at least one established credit rating agency as of both September 30, 2013 and December 31, 2012. Obtaining market values as of September 30, 2013 and December 31, 2012 for these securities utilizing significant observable inputs was not difficult due to their considerable demand.

25

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## Assets Measured at Fair Value on a Non-Recurring Basis at September 30, 2013

| Description                                                   | Total | Fair Value Measurements Using Level |        |         |
|---------------------------------------------------------------|-------|-------------------------------------|--------|---------|
|                                                               |       | 1                                   | 2      | Level 3 |
|                                                               |       | Inputs                              | Inputs | Inputs  |
| Impaired loans:                                               |       |                                     |        |         |
| One- to Four Family Residential and Cooperative Unit          | \$477 | -                                   | -      | \$477   |
| Multifamily Residential and Residential Mixed Use Real Estate | 325   | -                                   | -      | 325     |
| Commercial Real Estate                                        | 5,707 | -                                   | -      | 5,707   |

## Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2012

| Description                                                   | Total | Fair Value Measurements Using Level |        |         |
|---------------------------------------------------------------|-------|-------------------------------------|--------|---------|
|                                                               |       | 1                                   | 2      | Level 3 |
|                                                               |       | Inputs                              | Inputs | Inputs  |
| Impaired loans:                                               |       |                                     |        |         |
| Multifamily Residential and Residential Mixed Use Real Estate | \$450 | -                                   | -      | \$450   |
| Commercial Real Estate                                        | 6,472 | -                                   | -      | 6,472   |

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired under ASC 310-10-35 when, based upon existing information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at September 30, 2013 and December 31, 2012 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral.

Fair value is estimated through either a negotiated note sale value (Level 3 input), or, more commonly, a recent real estate appraisal (Level 3 input). These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

An appraisal is generally ordered for all impaired multifamily residential, mixed use or commercial real estate loans for which the most recent appraisal is more than one year old. The Bank never adjusts independent appraisal data upward. Occasionally, management will adjust independent appraisal data downward based upon its own lending expertise and/or experience with the subject property, utilizing such factors as potential note sale values, or a more refined estimate of costs to repair and time to lease the property. Adjustments for potential disposal costs are also considered when determining the final appraised value.

As of September 30, 2013, impaired loans measured for impairment using the estimated fair value of the collateral had an aggregate principal balance of \$7,893, and no valuation allowance within the allowance for loan losses. As of December 31, 2012, impaired loans measured for impairment using the estimated fair value of the collateral had an aggregate principal balance of \$6,922, and no valuation allowance within the allowance for loan losses. Such loans had no impact upon the provision for loan losses during either the three months ended September 30, 2013 or the year ended December 31, 2012.

The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at September 30, 2013:

| Fair Value | Valuation Technique                            | Significant Unobservable Input(s)                                                         | Range of Values | Weighted Average Value |
|------------|------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------|------------------------|
| Derived    | Utilized                                       |                                                                                           |                 |                        |
| \$ 207     | Income approach only                           | Capitalization rate                                                                       | N/A *           | 7.5 %                  |
|            |                                                | Reduction for planned expedited disposal                                                  | N/A *           | 10.0 %                 |
| 802        | Blended income and sales comparison approaches | Reduction to the sales comparison value to reconcile differences between comparable sales | 0.0 %           | 5.0 %                  |
|            |                                                | Capitalization rate (income approach component)                                           | 7.8 %-8.5%      | 8.3 %                  |
|            |                                                | Reduction for planned expedited disposal                                                  | 20.0 %          | 26.0 %                 |
|            |                                                | Discount to unpaid principal balance from likely                                          | %-30.0 %        |                        |
| 5,500      | Previously negotiated note sales               | realizable value of a note sale negotiated on terms deemed acceptable                     | N/A *           | 17.0 %                 |

\*Only one loan in this population.

The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at December 31, 2012:

| Fair Value | Valuation Technique                            | Significant Unobservable Input(s)                                                         | Range of Values | Weighted Average Value |
|------------|------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------|------------------------|
| Derived    | Utilized                                       |                                                                                           |                 |                        |
| \$ 207     | Income approach only                           | Capitalization rate                                                                       | N/A *           | 7.5 %                  |
|            |                                                | Reduction for planned expedited disposal                                                  | N/A *           | 10.0 %                 |
| 1,215      | Blended income and sales comparison approaches | Reduction to the sales comparison value to reconcile differences between comparable sales | 0.0 %-6.0%      | 3.8 %                  |
|            |                                                | Capitalization rate (income approach component)                                           | 7.3 %-7.5%      | 7.4 %                  |
|            |                                                | Reduction for planned expedited disposal                                                  | 10.0 %          | 15.6 %                 |
|            |                                                | Discount to unpaid principal balance from likely                                          | %-25.0 %        |                        |
| 5,500      | Previously negotiated note sales               | realizable value of a note sale negotiated on terms deemed acceptable                     | N/A *           | 17.0 %                 |

\*Only one loan in this population.

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The carrying amounts and estimated fair values of financial instruments (other than those measured at fair value on either a recurring or non-recurring basis) at September 30, 2013 and December 31, 2012 were as follows:

|                                                |                 | Fair Value at September 30, 2013 Using |                |                |             |      |      |      |   |  |
|------------------------------------------------|-----------------|----------------------------------------|----------------|----------------|-------------|------|------|------|---|--|
| At September 30, 2013                          | Carrying Amount | Level 1 Inputs                         | Level 2 Inputs | Level 3 Inputs | Total       |      |      |      |   |  |
| Assets:                                        |                 |                                        |                |                |             |      |      |      |   |  |
| Cash and due from banks                        | \$65,713        | \$65,713                               | \$-            | \$-            | \$65,713    |      |      |      |   |  |
| Investment securities held to maturity (TRUPS) | 5,622           | -                                      | -              | 6,138          | 6,138       |      |      |      |   |  |
| Loan, net                                      | 3,641,999       | -                                      | -              | 3,673,735      | 3,673,735   |      |      |      |   |  |
| Accrued interest receivable                    | 11,908          | 2                                      | 194            | 11,712         | 11,908      |      |      |      |   |  |
| Mortgage Servicing Rights ("MSR")              | 705             | -                                      | 1,076          | -              | 1,076       |      |      |      |   |  |
| FHLBNY capital stock                           | 41,863          | N/                                     | A N/           | A N/           | A N/        | A N/ | A N/ | A N/ | A |  |
| Liabilities:                                   |                 |                                        |                |                |             |      |      |      |   |  |
| Savings, money market and checking accounts    | \$1,756,570     | \$1,756,570                            | \$-            | \$-            | \$1,756,570 |      |      |      |   |  |
| Certificates of Deposit ("CDs")                | 852,594         | -                                      | 864,333        | -              | 864,333     |      |      |      |   |  |
| Escrow and other deposits                      | 98,160          | 98,160                                 | -              | -              | 98,160      |      |      |      |   |  |
| FHLBNY Advances                                | 772,500         | -                                      | 802,251        | -              | 802,251     |      |      |      |   |  |
| Trust Preferred securities payable             | 70,680          | -                                      | 70,680         | -              | 70,680      |      |      |      |   |  |
| Accrued interest payable                       | 2,923           | -                                      | 2,923          | -              | 2,923       |      |      |      |   |  |
|                                                |                 |                                        |                |                |             |      |      |      |   |  |
|                                                |                 | Fair Value at December 31, 2012 Using  |                |                |             |      |      |      |   |  |
| At December 31, 2012                           | Carrying Amount | Level 1 Inputs                         | Level 2 Inputs | Level 3 Inputs | Total       |      |      |      |   |  |
| Assets:                                        |                 |                                        |                |                |             |      |      |      |   |  |
| Cash and due from banks                        | \$79,076        | \$79,076                               | \$-            | \$-            | \$79,076    |      |      |      |   |  |
| Investment securities held to maturity (TRUPS) | 5,927           | -                                      | -              | 6,267          | 6,267       |      |      |      |   |  |
| Loans, net                                     | 3,478,336       | -                                      | -              | 3,602,583      | 3,602,583   |      |      |      |   |  |
| Loans held for sale                            | 560             | -                                      | 560            | -              | 560         |      |      |      |   |  |
| Accrued interest receivable                    | 13,518          | -                                      | 359            | 13,159         | 13,518      |      |      |      |   |  |
| MSR                                            | 1,115           | -                                      | 1,511          | -              | 1,511       |      |      |      |   |  |
| FHLBNY capital stock                           | 45,011          | N/                                     | A N/           | A N/           | A N/        | A N/ | A N/ | A N/ | A |  |
| Liabilities:                                   |                 |                                        |                |                |             |      |      |      |   |  |
| Savings, money market and checking accounts    | \$1,587,454     | \$1,587,454                            | \$-            | \$-            | \$1,587,454 |      |      |      |   |  |
| CDs                                            | 891,975         | -                                      | 907,657        | -              | 907,657     |      |      |      |   |  |
| Escrow and other deposits                      | 82,753          | 82,753                                 | -              | -              | 82,753      |      |      |      |   |  |
| FHLBNY Advances                                | 842,500         | -                                      | 885,774        | -              | 885,774     |      |      |      |   |  |
| Trust Preferred securities payable             | 70,680          | -                                      | 70,680         | -              | 70,680      |      |      |      |   |  |
| Accrued interest payable                       | 2,827           | -                                      | 2,827          | -              | 2,827       |      |      |      |   |  |

Methods and assumptions used to estimate fair values for financial assets and liabilities other than those previously discussed are summarized as follows:

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

Federal Funds Sold and Other Short Term Investments – As a result of their short duration to maturity, the fair value of these assets, principally overnight deposits, is assumed to be equal to their carrying value due (deemed a Level 1 valuation).

TRUPS Held to Maturity – At both September 30, 2013 and December 31, 2012, the Company owned seven TRUPS classified as held-to-maturity. Late in 2008, the market for these securities became illiquid, and continued to be deemed illiquid as of September 30, 2013. As a result, at both September 30, 2013 and December 31, 2012, their estimated fair value was obtained utilizing a blended valuation approach (Level 3 pricing). Under the blended valuation approach, the Bank utilized the following valuation sources: 1) broker quotations, which were deemed to meet the criteria of "distressed sale" pricing under the guidance of ASC 820-10-65-4, were given a minor 10.0 % weighting (deemed to be a Level 2 valuation); 2) an internally created cash flow valuation model that considered the creditworthiness of each individual issuer underlying the collateral pools, and utilized default, cash flow and discount rate assumptions determined by the Company's management (the "Internal Cash Flow Valuation"), was given a 45.0 % weighting (deemed to be a Level 3 valuation); and 3) a minimum of two of three available independent cash flow valuation models were averaged and given a 45.0 % weighting (deemed to be a Level 3 valuation for which the Company is not provided detailed information regarding the significant unobservable inputs utilized by the third party).

The major assumptions utilized in the Internal Cash Flow Valuation (each of which represents a significant unobservable input as defined by ASC 820-10) were as follows:

(i) Discount Rate - Pursuant to ASC 320-10-65, the Company utilized two different discount rates for discounting the cash flows for each of the seven TRUPS, as follows:

Purchase discount rate – the rate used to determine the "credit" based valuation of the security. The purchase (1) discount rates utilized to compute fair value as of September 30, 2013 ranged from 1.6 % to 2.4 %, with a weighted average value of 2.2 %.

(2) Current discount rate - the current discount rate utilized was derived from the Bloomberg fair market value curve for debt offerings of similar credit rating. In the event that a security had a split credit rating, separate cash flow valuations were made utilizing the appropriate discount rate and were averaged in order to determine the Internal Cash Flow Valuation. In addition, the discount rate was interpolated from the Bloomberg fair market value curve for securities possessing a credit rating below "B." The existing discount rates utilized to compute fair value as of September 30, 2013 ranged from 4.7 % to 6.9 %, with a weighted average value of 5.4 %.

(ii) Defaults – The Company utilized the most recently published measures of capital adequacy and/or problematic assets to estimate potential defaults in the collateral pool of performing issuers underlying the seven securities. In instances where problematic assets equaled or exceeded the issuer's regulatory capital, or the issuer's capital level fell below the limits established by the regulatory agencies, defaults were deemed probable to occur. Based upon the application of this methodology, the computed default rates utilized in the determination of the fair value of the TRUPS as of September 30, 2013 ranged from 0.0 % to 4.0 % of the performing security pool balance, with a weighted average rate of 1.0 %. The Company additionally utilized a standard default rate of 1.2 % every three years, which was applied uniformly.

(iii) Cash Flows - The expected payments for the tranche of each security owned by the Company, as adjusted to assume that all estimated defaults occur immediately. The cash flows further assumed an estimated recovery rate of 10.0 % per annum to occur one year after initial default, which was applied uniformly.

As discussed above, in addition to the Internal Cash Flow Valuation and broker quotations, at September 30, 2013 and December 31, 2012, the Company utilized a minimum of two additional cash flow valuation models in order to estimate the fair value of TRUPS. Two of the three independent cash flow valuation models utilized a methodology similar to the Internal Cash Flow Valuation, differing only in the underlying assumptions utilized to derive estimated cash flows, individual bank defaults and discount rate. At December 31, 2012, a third independent cash flow valuation model was utilized which was derived from a different methodology in which the actual cash flow estimate based upon the underlying collateral of the securities (including default estimates) was not considered. Instead, this cash flow valuation model utilized a discount rate determined from the Bloomberg fair market value curve for similar assets that continued to trade actively, with adjustments made for the illiquidity of the TRUPS market. This valuation model was not utilized as of September 30, 2013 as its rendered valuation was not deemed indicative of current market pricing. Because of the significant judgment underlying each of the pricing assumptions, management elected to recognize each of the independent valuations and apply a weighting system to all of the valuations, including the Internal Cash Flow Valuation, as all of these valuations were determined utilizing a valid and objective pricing methodology.

Loans, Net - The fair value of loans, net in the table above is determined by discounting anticipated future cash flows of the loans, net of anticipated prepayments, using a discount rate reflecting current market rates for loans with similar terms to borrowers of similar credit quality. For adjustable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The valuation method used for loans does not necessarily represent an exit price valuation methodology as defined under ASC 820. However, since the valuation methodology is deemed to be similar to a Level 3 valuation methodology, the fair value of loans receivable other than impaired loans measured at fair value, is shown under the Level 3 valuation column.

**Loans Held For Sale** - The fair value of held-for-sale loans is primarily determined utilizing quoted market prices for securities backed by similar types of loans. Changes in the fair value of loans held for sale result primarily from changes in interest rates subsequent to funding but prior to sale, and changes in the fair value of the associated servicing of the loan. Loans held for sale are deemed a Level 2 valuation.

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

**MSR** - On a quarterly basis, the aggregate balance of the MSR is evaluated for impairment based upon the fair value of the rights as compared to their carrying amount. If the aggregate carrying amount of the MSR exceeds fair value, impairment is recorded on the MSR so that they are carried at fair value. Fair value is determined based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2 input).

**FHLBNY Capital Stock** – It is not practicable to determine the fair value of FHLBNY capital stock due to restrictions placed on transferability.

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

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

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

Trust Preferred Securities Payable - The fair value of trust preferred securities payable is estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements (deemed a Level 2 valuation), and is provided to the Company quarterly independently by a market maker in the underlying security.

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

Commitments to Extend Credit - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

## 12. RETIREMENT AND POSTRETIREMENT PLANS

The Holding Company or the Bank maintains the Retirement Plan of The Dime Savings Bank of Williamsburgh (the "Employee Retirement Plan"), the Retirement Plan for Board Members of Dime Community Bancshares, Inc. (the "Outside Director Retirement Plan"), the BMP, and the Postretirement Welfare Plan of The Dime Savings Bank of Williamsburgh ("Postretirement Plan"). Net expenses associated with these plans were comprised of the following components:

|                                 | Three Months Ended<br>September 30, 2013                              |                        | Three Months Ended<br>September 30, 2012                              |                        |
|---------------------------------|-----------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------|------------------------|
|                                 | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |                        |
|                                 |                                                                       | Postretirement<br>Plan |                                                                       | Postretirement<br>Plan |
| Service cost                    | \$-                                                                   | \$ 15                  | \$-                                                                   | \$ 39                  |
| Interest cost                   | 290                                                                   | 57                     | 306                                                                   | 90                     |
| Expected return on assets       | (380)                                                                 | -                      | (363)                                                                 | -                      |
| Amortization of unrealized loss | 587                                                                   | 12                     | 541                                                                   | 75                     |
| Net periodic cost               | \$497                                                                 | \$ 84                  | \$484                                                                 | \$ 204                 |
|                                 | Nine Months Ended<br>September 30, 2013                               |                        | Nine Months Ended<br>September 30, 2012                               |                        |

|                                 | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |        | BMP,<br>Employee<br>and<br>Outside<br>Director<br>Retirement<br>Plans |        |
|---------------------------------|-----------------------------------------------------------------------|--------|-----------------------------------------------------------------------|--------|
|                                 | Postretirement<br>Plan                                                |        | Postretirement<br>Plan                                                |        |
| Service cost                    | \$-                                                                   | \$ 45  | \$-                                                                   | \$ 117 |
| Interest cost                   | 868                                                                   | 170    | 918                                                                   | 270    |
| Expected return on assets       | (1,139)                                                               | -      | (1,089)                                                               | -      |
| Amortization of unrealized loss | 1,762                                                                 | 36     | 1,623                                                                 | 225    |
| Net periodic cost               | \$1,491                                                               | \$ 251 | \$1,452                                                               | \$ 612 |

The Company disclosed in its consolidated financial statements for the year ended December 31, 2012 that it expected to make contributions to, or benefit payments on behalf of, benefit plans during 2013 as follows: Employee Retirement Plan - \$53, BMP - \$483, Outside Director Retirement Plan - \$186, and Postretirement Plan - \$187. The Company made contributions of \$31 to the Employee Retirement Plan during the nine months ended September 30, 2013, and expects to make the remainder of the estimated \$53 of net contributions during 2013. The Company made benefit payments of \$136 on behalf of the Outside Director Retirement Plan

during the nine months ended September 30, 2013, and expects to make the remainder of the estimated \$186 of net contributions or benefit payments during 2013. The Company made benefit payments totaling \$60 on behalf of the Postretirement Plan during the nine months ended September 30, 2013, and expects to make the remainder of the estimated \$187 of contributions or benefit payments during 2013. The Company did not make any defined benefit contributions to, or benefit payments on behalf of, the BMP during the nine months ended September 30, 2013, and does not currently expect to make the \$483 of benefit payments on behalf of the BMP during 2013, since anticipated retirements that formed the basis for these expected benefit payments in 2013 are presently not expected to occur.

### 13. INCOME TAXES

During the three months ended September 30, 2013 and 2012, the Company's consolidated effective tax rates were 40.4 % and 41.3 %, respectively. During the nine months ended September 30, 2013 and 2012, the Company's consolidated effective tax rates were 40.3 % and 41.0 %, respectively, approximating the expected 41.0 % normalized rate for each period. There were no significant unusual income tax items during either the three-month or nine-month periods ended September 30, 2013 and 2012.

### 14. NET MORTGAGE BANKING INCOME

Net mortgage banking income presented in the consolidated statements of income was comprised of the following items:

|                                                 | Three<br>Months<br>Ended<br>September<br>30,<br>2013 2012 |       | Nine Months<br>Ended<br>September 30,<br>2013 2012 |         |
|-------------------------------------------------|-----------------------------------------------------------|-------|----------------------------------------------------|---------|
| Gain on the sale of loans originated for sale   | \$2                                                       | \$20  | \$13                                               | \$26    |
| Credit to the liability for First Loss Position | 50                                                        | 140   | 245                                                | 1,107   |
| Mortgage banking fees                           | 24                                                        | 99    | 92                                                 | 342     |
| Net mortgage banking income                     | \$76                                                      | \$259 | \$350                                              | \$1,475 |

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

### General

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-six full service retail banking offices located in the NYC boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the internet, and investing them primarily in multifamily residential, commercial real estate and mixed use loans, MBS, obligations of the U.S. government and GSEs, and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

### Executive Summary

The Holding Company's primary business is the ownership of the Bank. The Company's consolidated results of operations are dependent primarily on net interest income, which is the difference between the interest income earned

on interest-earning assets, such as loans and securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. The Bank additionally generates non-interest income such as service charges and other fees, mortgage banking related income, and income associated with Bank Owned Life Insurance. Non-interest expense primarily consists of employee compensation and benefits, federal deposit insurance premiums, data processing costs, and occupancy and equipment, marketing and other operating expenses. The Company's consolidated results of operations are also significantly affected by general economic and competitive conditions (particularly fluctuations in market interest rates), government policies, changes in accounting standards and actions of regulatory agencies.

The Bank's primary strategy is generally to seek to increase its product and service utilization for each individual depositor, and increase its household and deposit market shares in the communities that it serves. In addition, the Bank's primary strategy includes the origination of, and investment in, mortgage loans, with an emphasis on NYC multifamily residential and mixed-use real estate loans. The Company believes that multifamily residential and mixed-use loans in and around NYC provide several advantages as investment assets. Initially, they offer a higher yield than investment securities of comparable maturities or terms to repricing. In addition, origination and processing costs for the Bank's multifamily residential and mixed use loans are lower per thousand dollars of originations than comparable one-to four-family loan costs. Further, the Bank's market area has generally provided a stable flow of new and refinanced multifamily residential and mixed-use loan originations. In order to address the credit risk associated with multifamily residential and mixed use lending, the Bank has developed underwriting standards that it believes are reliable in order to maintain consistent credit quality for its loans.

The Bank also strives to provide a stable source of liquidity and earnings through the purchase of investment grade securities, seeks to maintain the asset quality of its loans and other investments, and uses portfolio and asset/liability management techniques in an effort to manage the effects of interest rate volatility on its profitability and capital.

#### Recent Regulatory Developments

**Basel III Capital Rules.** In July 2013, the Bank's primary federal regulator, the Federal Deposit Insurance Corporation ("FDIC"), and the Holding Company's primary regulator, the Board of Governors of the Federal Reserve System ("Federal Reserve") published final rules (the "Basel III Capital Rules") that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee on Banking Supervision ("Basel Committee") in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Basel III Capital Rules apply to banking organizations, including depository institutions and ultimate parent savings and loan holding companies, such as the Bank and Holding Company, respectively.

The Basel III Capital Rules are intended to increase both the amount and quality of regulatory capital. Among other things, the Basel III Capital Rules: a) introduce a new capital measure entitled "Common Equity Tier 1" ("CET1"); b) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; c) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and d) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

Under the Basel III Capital Rules, banking organizations (other than "advanced approaches" banking organizations) are provided a one-time option in their initial regulatory financial report filed after January 1, 2015 to remove certain components of accumulated other comprehensive income from the computation of common equity regulatory capital.

The Basel III Capital Rules also provide a permanent exemption from the proposed phase out of existing trust preferred securities and cumulative perpetual preferred stock from regulatory capital for banking organizations with less than \$15 billion in total assets, while also implementing stricter eligibility requirements for regulatory capital instruments that should serve to disallow the inclusion of all non-exempt issuances of trust preferred securities and cumulative perpetual preferred stock from tier 1 capital. The Basel III Capital Rules also provide additional constraints on the inclusion of minority interests, mortgage servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions in tier 1 capital, as well as providing stricter risk weighting rules to these assets.

The Basel III Capital Rules provide for the following minimum capital to risk-weighted assets ratios: a) 4.5% based upon CET1; b) 6.0% based upon tier 1 capital; and c) 8.0% based upon total regulatory capital. A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules. When fully phased in, the Basel III Capital Rules will additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers. Restrictions would begin phasing in where the banking organization's capital conservation buffer was below 2.5% at the beginning of a quarter, and distributions and discretionary bonus payments would be completely prohibited if no capital conservation buffer exists.

The Basel III Capital Rules also provide stricter rules related to the risk weighting of past due and certain commercial real estate loans, as well as on some equity investment exposures, and replaces the existing credit rating approach for determining the risk weighting of securitization exposures with an alternative approach in which senior securitization

tranches are assigned a risk weight associated with the underlying exposure and a banking organization must hold capital for the senior tranche based on the risk weight of the underlying exposures. Under the revised approach, for subordinate securitization tranches, a banking organization must hold capital for the subordinate tranche, as well as all more senior tranches for which the subordinate tranche provides credit support.

Finally, the Basel III Capital Rules amend the thresholds under the "prompt corrective action" framework enforced with respect to the Bank by the FDIC to reflect both (i) the generally heightened requirements for regulatory capital ratios as well as (ii) the introduction of the CET1 capital measure.

The Basel III Capital Rules become effective as applied to the Bank and Holding Company on January 1, 2015, with a phase in period from January 1, 2015 through January 1, 2019. The enactment of the Basel III Capital Rules could increase the required capital levels of the Bank, and the Holding Company will become subject to consolidated capital rules.

The Basel III Capital Rules adopted in July 2013 do not address the proposed liquidity coverage ratio ("LCR") called for by the Basel Committee's Basel III framework, which, if implemented, could require the Bank to hold high-quality liquid assets sufficient to cover its total net cash outflows over 30 days. On October 24, 2013, the Federal Reserve issued a proposed rule implementing an LCR requirement in the United States for larger banking organizations. Neither the Holding Company nor the Bank would be subject to the LCR requirement as proposed.

Management believes that, as of September 30, 2013, the Holding Company and the Bank would have satisfied all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were then in effect.

**FDIC Guidance on Managing Market Risk.** On October 8, 2013, the FDIC published guidance entitled "Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment". This guidance notes the FDIC's ongoing supervisory concern that certain institutions may be insufficiently prepared or positioned for sustained increases in, or volatility of, interest rates. The guidance emphasizes a series of best practices to ensure that state nonmember institutions, such as the Bank, have adopted a comprehensive asset-liability and interest rate risk management process. These practices include: (i) effective board governance and oversight; (ii) a sound policy framework and prudent exposure limits; (iii) well-developed risk measurement tools for effective measurement and monitoring of interest rate risk and; (iv) effective risk mitigation strategies.

**New York State Department of Financial Services Actions Regarding Online Payday Lending.** On August 5, 2013, the New York State Department of Financial Services ("DFS") published a letter identifying 35 payday lenders believed to be engaged in unlawful activities in New York. The letter was sent to 117 banks, including the Bank, as well as NACHA, which administers the Automated Clearing House ("ACH") network. It requests that the banks cooperate with DFS to create a new set of model safeguards and procedures to prevent the 35 lenders, as well as the broader payday lending industry, from accessing New York customer accounts and the ACH payments system in general.

**DFS Guidelines for Bank Lending to Multifamily Properties Under the Community Reinvestment Act.** On September 5, 2013, the DFS published guidelines addressing responsible multifamily lending. The guidelines report DFS' future intention to have CRA examinations review whether a bank has satisfied its responsibility to ensure that any loan contributes to, and does not undermine, the availability of affordable housing or neighborhood conditions. Under the guidelines, a loan on a multifamily property would not be found to have a community development purpose, and would not be CRA eligible if it: (i) significantly reduces or has the potential to reduce affordable housing; (ii) facilitates substandard living conditions; (iii) is in technical default; or (iv) has been underwritten in an unsound manner.

The guidelines also recommend that banks consider adopting a series of best practices in an effort to help avoid reductions in qualitative or quantitative CRA credit on multifamily loans.

The Bank has not yet determined whether and to what extent, if any, the guidelines will affect the business and operations of the Bank, or whether any such effect could adversely impact the Bank.

Selected Financial Highlights and Other Data  
(Dollars in Thousands Except Per Share Amounts)

|                                                                         | At or For the Three<br>Months Ended<br>September 30,<br>2013 |   |          |   | At or For the Nine<br>Months Ended<br>September 30,<br>2013 |   |          |   | At or For the Nine<br>Months Ended<br>September 30,<br>2012 |  |  |  |
|-------------------------------------------------------------------------|--------------------------------------------------------------|---|----------|---|-------------------------------------------------------------|---|----------|---|-------------------------------------------------------------|--|--|--|
| Performance and Other Selected Ratios:                                  |                                                              |   |          |   |                                                             |   |          |   |                                                             |  |  |  |
| Return on Average Assets                                                | 1.07                                                         | % | 1.21     | % | 1.11                                                        | % | 1.13     | % |                                                             |  |  |  |
| Return on Average Stockholders' Equity                                  | 10.19                                                        |   | 12.32    |   | 10.91                                                       |   | 11.98    |   |                                                             |  |  |  |
| Stockholders' Equity to Total Assets                                    | 10.53                                                        |   | 9.80     |   | 10.53                                                       |   | 9.80     |   |                                                             |  |  |  |
| Loans to Deposits at End of Period                                      | 140.62                                                       |   | 137.50   |   | 140.62                                                      |   | 137.50   |   |                                                             |  |  |  |
| Loans to Earning Assets at End of Period                                | 96.43                                                        |   | 88.48    |   | 96.43                                                       |   | 88.48    |   |                                                             |  |  |  |
| Net Interest Spread                                                     | 3.17                                                         |   | 3.38     |   | 3.24                                                        |   | 3.32     |   |                                                             |  |  |  |
| Net Interest Margin                                                     | 3.35                                                         |   | 3.59     |   | 3.45                                                        |   | 3.57     |   |                                                             |  |  |  |
| Average Interest Earning Assets to Average Interest Bearing Liabilities | 115.86                                                       |   | 114.77   |   | 116.18                                                      |   | 114.50   |   |                                                             |  |  |  |
| Non-Interest Expense to Average Assets                                  | 1.56                                                         |   | 1.62     |   | 1.58                                                        |   | 1.61     |   |                                                             |  |  |  |
| Efficiency Ratio                                                        | 46.38                                                        |   | 43.92    |   | 45.82                                                       |   | 44.05    |   |                                                             |  |  |  |
| Effective Tax Rate                                                      | 40.43                                                        |   | 41.25    |   | 40.31                                                       |   | 41.03    |   |                                                             |  |  |  |
| Dividend Payout Ratio                                                   | 46.67                                                        |   | 41.18    |   | 44.21                                                       |   | 42.86    |   |                                                             |  |  |  |
| Per Share Data:                                                         |                                                              |   |          |   |                                                             |   |          |   |                                                             |  |  |  |
| Reported EPS (Diluted)                                                  | \$0.30                                                       |   | \$0.34   |   | \$0.95                                                      |   | \$0.98   |   |                                                             |  |  |  |
| Cash Dividends Paid Per Share                                           | 0.14                                                         |   | 0.14     |   | 0.42                                                        |   | 0.42     |   |                                                             |  |  |  |
| Stated Book Value                                                       | 11.57                                                        |   | 10.89    |   | 11.57                                                       |   | 10.89    |   |                                                             |  |  |  |
| Asset Quality Summary:                                                  |                                                              |   |          |   |                                                             |   |          |   |                                                             |  |  |  |
| Net Charge-offs                                                         | \$202                                                        |   | \$(325 ) |   | \$435                                                       |   | \$3,500  |   |                                                             |  |  |  |
| Non-performing Loans                                                    | 8,838                                                        |   | 10,690   |   | 8,838                                                       |   | 10,690   |   |                                                             |  |  |  |
| Non-performing Loans/Total Loans                                        | 0.24                                                         | % | 0.32     | % | 0.24                                                        | % | 0.32     | % |                                                             |  |  |  |
| Non-performing Assets                                                   | \$9,735                                                      |   | \$11,580 |   | \$9,735                                                     |   | \$11,580 |   |                                                             |  |  |  |
| Non-performing Assets/Total Assets                                      | 0.24                                                         | % | 0.29     | % | 0.24                                                        | % | 0.29     | % |                                                             |  |  |  |
| Allowance for Loan Loss/Total Loans                                     | 0.56                                                         |   | 0.62     |   | 0.56                                                        |   | 0.62     |   |                                                             |  |  |  |
| Allowance for Loan Loss/Non-performing Loans                            | 232.41                                                       |   | 193.58   |   | 232.41                                                      |   | 193.58   |   |                                                             |  |  |  |
| Earnings to Fixed Charges Ratios (1)                                    |                                                              |   |          |   |                                                             |   |          |   |                                                             |  |  |  |
| Including Interest on Deposits                                          | 2.50                                                         | x | 2.40     | x | 2.53                                                        | x | 2.17     | x |                                                             |  |  |  |
| Excluding Interest on Deposits                                          | 3.54                                                         |   | 3.23     |   | 3.64                                                        |   | 2.77     |   |                                                             |  |  |  |

(1) Please refer to Exhibit 12.1 for further detail on the calculation of these ratios.

### Critical Accounting Policies

During the quarter ended September 30, 2013, management of the Company undertook an analysis of the appropriateness of each of the numerous elements previously identified as "critical accounting policies," and determined that, through the passage of time and materiality relative to the Company's financial statements, it is no longer appropriate to identify several of them as critical to the fair presentation of the financial statements in all material respects. As a result of this analysis, management will continue to focus on two critical accounting policies which are considered to have a notably high subjective element, any misjudgment of which could have a material impact on the financial statements. The Company's policies with respect to (1) the methodologies it uses to determine the allowance for loan losses (including reserves for loan commitments), and (2) accounting for defined benefit plans, are its most critical accounting policies because they are important to the presentation of the Company's consolidated financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain

matters. The use of different judgments, assumptions or estimates could result in material variations in the Company's consolidated results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application.

Allowance for Loan Losses and Reserve for Loan Commitments. The Bank's methods and assumptions utilized to periodically determine its allowance for loan losses are summarized in Note 9 to the Company's condensed consolidated financial statements.

**Accounting for Defined Benefit Plans.** Defined benefit plans are accounted for in accordance with ASC 715, which requires an employer sponsoring a single employer defined benefit plan to recognize the funded status of such benefit plan in its statements of financial condition, measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. The Company utilizes the services of trained actuaries employed at an independent benefits plan administration entity in order to assist in measuring the funded status of its defined benefit plans.

#### Liquidity and Capital Resources

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

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security principal and interest payments, advances from the FHLBNY, and REPOs entered into with various financial institutions, including the FHLBNY. The Bank may also sell selected multifamily residential and mixed use real estate loans to private sector secondary market purchasers and has in the past sold such loans, as well as one to four family residential loans, to FNMA. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and investments are predictable sources of funds, deposit flows and prepayments on mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

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

Retail branch and Internet banking deposits increased \$129.7 million during the nine months ended September 30, 2013, compared to an increase of \$75.5 million during the nine months ended September 30, 2012. Within deposits, core deposits (i.e., non-CDs) increased \$169.1 million during the nine months ended September 30, 2013 and \$128.0 million during the nine months ended September 30, 2012. These increases were due to both successful gathering efforts tied to promotional money market offerings as well as increased commercial checking balances. CDs decreased \$39.4 million during the nine months ended September 30, 2013 and declined by \$52.5 million during the nine months ended September 30, 2012. The reduction during the nine months ended September 30, 2013 resulted primarily from the attrition of maturing CDs from prior period promotional activities and a customer preference for deposit types other than CDs. The reduction during the nine months ended September 30, 2012 was due to the attrition of maturing CDs from prior period promotional activities.

The Bank did not prepay any borrowings during the nine months ended September 30, 2013, and reduced its outstanding FHLBNY advances by \$70.0 million during the period, utilizing deposit inflows instead to fund asset growth. During the nine months ended September 30, 2012, the Bank prepaid \$40.0 million of borrowings secured by REPOs and \$55.0 million of FHLBNY advances, removing a negative carrying cost on these \$95.0 million of funding liabilities. The Bank also elected not to replace \$117.3 million of FHLBNY advances that matured during the nine months ended September 30, 2012.

During the nine months ended September 30, 2013, principal repayments totaled \$730.2 million on real estate loans (including refinanced loans) and \$14.7 million on MBS. During the nine months ended September 30, 2012, principal repayments totaled \$775.3 million on real estate loans (including refinanced loans) and \$34.0 million on MBS. The decrease in principal repayments on real estate loans reflected reduced loan refinancing activity during the nine months ended September 30, 2013. The decline in principal repayments on MBS resulted from a reduction of \$49.0 million in their average balance from the nine months ended September 30, 2012 to the nine months ended September 30, 2013.

In the event that the Bank should require funds beyond its ability or desire to generate them internally, an additional source of funds is available through its borrowing line at the FHLBNY. At September 30, 2013, the Bank had an additional potential borrowing capacity of \$428.3 million through the FHLBNY, subject to customary minimum FHLBNY common stock ownership requirements (i.e., 4.5% of the Bank's outstanding FHLBNY borrowings).

The Bank is subject to minimum regulatory capital requirements imposed by its primary federal regulator. As a general matter, these capital requirements are based on the amount and composition of an institution's assets. At September 30, 2013, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Company generally utilizes its liquidity and capital resources primarily to fund the origination of real estate loans, the purchase of mortgage-backed and other securities, the repurchase of Holding Company common stock into treasury, the payment of quarterly cash dividends to holders of the Holding Company's common stock and the payment of quarterly interest to holders of its outstanding trust preferred debt. During the nine months ended September 30, 2013 and 2012, real estate loan originations totaled \$859.6 million and \$645.2 million, respectively.

The increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 reflected the Company's transition, in late 2012 and during the nine months ended September 30, 2013, from a non-growth, to a measured loan and balance sheet growth, strategy, which necessitated higher real estate loan origination levels.

Purchases of investment securities (excluding trading securities and federal funds sold and other short-term investments) were negligible during the nine months ended September 30, 2013, and \$103.3 million during the nine months ended September 30, 2012. Security purchases were de-emphasized during the nine months ended September 30, 2013 due to the removal of required securities for collateral on REPO borrowings. The purchases made during the nine months ended September 30, 2012 were comprised of \$80.1 million of medium-term agency notes aimed at providing additional yield on liquid funds, and \$23.2 million of adjustable rate Government National Mortgage Association MBS, which sought to provide additional yield on liquid assets, ongoing cash flows from principal repayments and protection against potential increases in interest rates.

The Holding Company did not repurchase any shares of its common stock during the nine months ended September 30, 2013 and 2012. As of September 30, 2013, up to 1,124,549 shares remained available for purchase under authorized share purchase programs. Based upon the \$16.65 per share closing price of its common stock as of September 30, 2013, the Holding Company would utilize \$18.7 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

The Holding Company paid \$14.7 million in cash dividends on its common stock during the nine months ended September 30, 2013, and \$14.4 million during the nine months ended September 30, 2012. The increase in payment resulted from a net increase of 950,307 shares outstanding from September 30, 2012 to September 30, 2013.

#### Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment. In addition, the Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances, as well as customer CDs with fixed contractual interest rates. The Holding Company also has \$70.7 million of callable trust preferred borrowings from third parties due to mature in April 2034, which became callable at any time commencing in April 2009. The Holding Company does not currently intend to call this debt. The facts and circumstances surrounding these obligations have not changed materially since December 31, 2012.

#### Off-Balance Sheet Arrangements

From December 2002 through February 2009, the Bank originated and sold multifamily residential mortgage loans in the secondary market to FNMA while retaining servicing. The Bank is required to retain the First Loss Position related to all loans sold under this program, which will remain in effect until the earlier of the following events: (1) all of the loans have been fully satisfied or enter OREO status; or (2) the First Loss Position is fully exhausted.

In addition, as part of its loan origination business, the Bank generally has outstanding commitments to extend credit to third parties, which are granted pursuant to its regular underwriting standards. Since these loan commitments may

expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows.

The following table presents off-balance sheet arrangements as of September 30, 2013:

|                                               | Less than<br>One Year | One<br>Year<br>to<br>Three<br>Years | Over<br>Three<br>Years<br>to<br>Five<br>Years | Over<br>Five<br>Years | Total     |
|-----------------------------------------------|-----------------------|-------------------------------------|-----------------------------------------------|-----------------------|-----------|
| (Dollars in thousands)                        |                       |                                     |                                               |                       |           |
| Credit Commitments:                           |                       |                                     |                                               |                       |           |
| Available lines of credit                     | \$38,472              | \$ -                                | \$ -                                          | \$ -                  | \$38,472  |
| Other loan commitments (1)                    | 103,110               | -                                   | -                                             | -                     | 103,110   |
| Other Commitments:                            |                       |                                     |                                               |                       |           |
| First Loss Position on loans sold to FNMA (1) | 15,428                | -                                   | -                                             | -                     | 15,428    |
| Total Commitments                             | \$157,010             | \$ -                                | \$ -                                          | \$ -                  | \$157,010 |

(1) In accordance with the requirements of both ASC 450-20-25 and 460-10-25, as of September 30, 2013, reserves on loan commitments and the liability for the First Loss Position on loans sold to FNMA were \$116 and \$1,100, respectively, and were recorded in other liabilities in the Company's consolidated statements of financial condition.

#### Asset Quality

##### General

At both September 30, 2013 and December 31, 2012, the Company had neither whole loans nor loans underlying MBS that would have been considered subprime loans at origination, i.e., mortgage loans advanced to borrowers who did not qualify for market interest rates because of problems with their income or credit history. See Note 10 to the condensed consolidated financial statements for a discussion of impaired investment securities and MBS.

##### Monitoring and Collection of Delinquent Loans

Management of the Bank reviews delinquent loans on a monthly basis and reports to its Board of Directors regarding the status of all non-performing and otherwise delinquent loans in the Bank's portfolio.

The Bank's loan servicing policies and procedures require that an automated late notice be sent to a delinquent borrower as soon as possible after a payment is ten days late in the case of multifamily residential or commercial real estate loans, or fifteen days late in connection with one- to four-family or consumer loans. A second letter is sent to the borrower if payment has not been received within 30 days of the due date. Thereafter, periodic letters are mailed and phone calls placed to the borrower until payment is received. When contact is made with the borrower at any time prior to foreclosure, the Bank will attempt to obtain the full payment due or negotiate a repayment schedule with the borrower to avoid foreclosure.

Accrual of interest is generally discontinued on a loan that meets any of the following three criteria: (i) full payment of principal or interest is not expected; (ii) principal or interest has been in default for a period of 90 days or more (unless the loan is both deemed to be well secured and in the process of collection); or (iii) an election has otherwise been made to maintain the loan on a cash basis due to deterioration in the financial condition of the borrower. Such non-accrual determination practices are applied consistently to all loans regardless of their internal classification or designation. Upon entering non-accrual status, the Bank reverses all outstanding accrued interest receivable.

The Bank generally initiates foreclosure proceedings when a loan enters non-accrual status based upon non-payment, and typically does not accept partial payments once foreclosure proceedings have commenced. At some point during foreclosure proceedings, the Bank procures current appraisal information in order to prepare an estimate of the fair value of the underlying collateral. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure action is completed, the property securing the loan is transferred to OREO status. The Bank generally utilizes all available remedies, such as note sales in lieu of foreclosure, in an effort to resolve non-accrual loans and OREO properties as quickly and prudently as possible in consideration of market conditions, the physical condition of the property and any other mitigating circumstances. In the event that a non-accrual loan is subsequently brought current, it is returned to accrual status once the doubt concerning collectability has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a period of at least six months.

##### Non-accrual Loans

Within the Bank's permanent portfolio, non-accrual loans totaled \$8.8 million and \$8.9 million at September 30, 2013 and December 31, 2012, respectively, representing 0.24% and 0.25% of total loans at September 30, 2013 and December 31, 2012, respectively. During the nine months ended September 30, 2013, four non-accrual loans totaling \$1.7 million were either satisfied or disposed of at a value at or below their recorded balance, a \$765,000 non-accrual loan was transferred to OREO, three non-accrual loans totaling \$701,000 were returned to accrual status, \$227,000 of

principal charge-offs were recognized on two non-accrual loans and principal amortization totaling \$49,000 was recognized on six non-accrual loans. Offsetting these declines were twelve loans totaling \$3.4 million that were added to non-accrual status during the nine months ended September 30, 2013.

#### Impaired Loans

The recorded investment in loans deemed impaired (as defined in Note 8 to the condensed consolidated financial statements) was approximately \$41.1 million, consisting of twenty-four loans, at September 30, 2013, compared to \$53.1 million, consisting of twenty-six loans, at December 31, 2012. During the nine months ended September 30, 2013, six impaired loans totaling \$12.8 million were either satisfied or disposed of at a value at or below their recorded balance and a \$765,000 impaired loan was transferred to OREO. Additionally during the nine months ended September 30, 2013, principal charge-offs of \$227,000 were recognized on two impaired loans, and principal amortization totaling \$453,000 was recognized on nineteen impaired loans. Partially offsetting these declines were five loans totaling \$2.1 million that were added to impaired status during the nine months ended September 30, 2013.

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37

The following is a reconciliation of non-accrual and impaired loans at September 30, 2013:

|                                                                             | (Dollars in<br>Thousands) |
|-----------------------------------------------------------------------------|---------------------------|
| Non-accrual loans                                                           | \$ 8,838                  |
| Non-accrual one- to four-family and consumer loans deemed homogeneous loans | (874 )                    |
| TDRs retained on accrual status                                             | 33,118                    |
| Impaired loans                                                              | \$ 41,082                 |

#### TDRs

Under ASC 310-40-15, the Bank is required to recognize loans for which certain modifications or concessions have been made as TDRs. A TDR has been created in the event that any of the following criteria is met:

- For economic or legal reasons related to the debtor's financial difficulties, a concession has been granted that would not have otherwise been considered
- A reduction of interest rate has been made for the remaining term of the loan
- The maturity date of the loan has been extended with a stated interest rate lower than the current market rate for new debt with similar risk
- The outstanding principal amount and/or accrued interest have been reduced

In instances in which the interest rate has been reduced, management would not deem the modification a TDR in the event that the reduction in interest rate reflected either a general decline in market interest rates or an effort to maintain a relationship with a borrower who could readily obtain funds from other sources at the current market interest rate, and the terms of the restructured loan are comparable to the terms offered by the Bank to non-troubled debtors. The Bank has not modified any loans in a manner that met the criteria for a TDR since the quarterly period ended March 31, 2012.

Accrual status for TDRs is determined separately for each TDR in accordance with the policies for determining accrual or non-accrual status that are outlined on page 37. At the time an agreement is entered into between the Bank and the borrower that results in the Bank's determination that a TDR has been created, the loan can be either on accrual or non-accrual status. If a loan is on non-accrual status at the time it is restructured, it continues to be classified as non-accrual until the borrower has demonstrated compliance with the modified loan terms for a period of at least six months. Conversely, if at the time of restructuring the loan is performing (and accruing), it will remain accruing throughout its restructured period, unless the loan subsequently meets any of the criteria for non-accrual status under the Bank's policy, as disclosed on page 37 and agency regulations.

The Bank never accepts receivables or equity interests in satisfaction of TDRs.

At both September 30, 2013 and 2012, the great majority of TDRs were collateralized by real estate that generated rental income. For TDRs that demonstrated conditions sufficient to warrant accrual status, the present value of the expected net cash flows of the underlying property was utilized as the primary means of determining impairment.

Any shortfall in the present value of the expected cash flows calculated at each measurement period (typically quarter-end) compared to the present value of the expected cash flows at the time of the original loan agreement was recognized as either an allocated reserve (in the event that it related to lower expected interest payments) or a charge-off (if related to lower expected principal payments). For TDRs on non-accrual status, an appraisal of the underlying real estate collateral is deemed the most appropriate measure to utilize when evaluating impairment, and any shortfall in valuation from the recorded balance is accounted for through a charge-off. In the event that either an allocated reserve or a charge-off is recognized on TDRs, the periodic loan loss provision is impacted.

Please refer to Note 8 to the condensed consolidated financial statements for a further discussion of TDRs.

## OREO

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

During the nine months ended September 30, 2013, a write down in value of \$180,000 was recognized on an OREO property acquired during the period, and the property was subsequently sold in August 2013. Otherwise, the Bank owned no OREO properties with a recorded balance at either September 30, 2013 or December 31, 2012.

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

|                                                             | At<br>September<br>30 2013 | At<br>December<br>31, 2012 |
|-------------------------------------------------------------|----------------------------|----------------------------|
|                                                             | (Dollars in<br>Thousands)  |                            |
| One- to four-family residential and cooperative apartment   | \$1,136                    | \$ 938                     |
| Multifamily residential and residential mixed use           | 1,993                      | 507                        |
| Commercial real estate and mixed use commercial real estate | 5,707                      | 7,435                      |
| Consumer                                                    | 2                          | 8                          |
| Sub-total                                                   | 8,838                      | 8,888                      |
| Non-accrual loans held for sale                             | -                          | 560                        |
| Total non-accrual loans                                     | 8,838                      | 9,448                      |
| Non-performing TRUPS                                        | 897                        | 892                        |
| OREO                                                        | -                          | -                          |
| Total non-performing assets                                 | 9,735                      | 10,340                     |
| Ratios:                                                     |                            |                            |
| Total non-accrual loans to total loans                      | 0.24                       | % 0.25 %                   |
| Total non-performing assets to total assets                 | 0.24                       | 0.26                       |

TDRs and Impaired Loans

|                    |          |           |
|--------------------|----------|-----------|
| TDRs               | \$38,825 | \$ 51,123 |
| Impaired loans (1) | 41,082   | 53,144    |

(1) Amount includes all TDRs at both September 30, 2013 and December 31, 2012. See the discussion entitled "Impaired Loans" commencing on page 37 for a reconciliation of non-accrual and impaired loans.

Other Potential Problem Loans

(i) Loans Delinquent 30 to 89 Days

The Bank had 8 real estate loans, totaling \$3.8 million, that were delinquent between 30 and 89 days at September 30, 2013, a net reduction of \$3.3 million compared to 13 such loans totaling \$7.1 million at December 31, 2012. The 30 to 89 day delinquent levels fluctuate monthly, and are generally considered a less accurate indicator of near-term credit quality trends than non-accrual loans.

(ii) Temporary Loan Modifications

At September 30, 2013, the Bank had 3 loans totaling \$1.9 million that were either current or less than 30 days delinquent, and were mutually modified with the borrowers in a manner that: (i) did not involve a full re-underwriting of the loan; and (ii) did not meet the criteria for TDR. At December 31, 2012, there were 4 such loans totaling \$2.4 million. These modifications, which have a typical term of 12 months, were granted by the Bank to borrowers who requested cash flow relief in order to assist them through periods of sub-optimal occupancy. The key features of these modified loans were: 1) they permitted only minor reductions in the cash flow requirements of debt service; and 2) there was no forgiveness of contractual principal and interest amounts due to the Bank. The terms of modification were generally in the form of either: (1) temporary suspension of monthly principal amortization, which, given the balloon repayment feature of these loans, typically constitutes a minor concession; or (2) a temporary reduction in interest rate, or a permanent reduction to an interest rate higher than that offered a prime borrower and generally reflective of the credit condition of the loan at the time of modification. In consideration of paragraph 12c of ASC 310-40-15, the interest rate on these temporary modifications was consistent with a "market rate" that: 1) the Bank

would have offered a different borrower with comparable loan-to-value and debt service coverage ratios; and 2) the borrower could have received from another financial institution at the time of modification. To date, none of these temporarily modified loans have had their maturities extended, nor would this be a typical negotiable item for the Bank. Although all of the temporarily modified loans at September 30, 2013 and December 31, 2012 were secured by real estate, none of them were reliant upon liquidation of the underlying collateral for repayment of the outstanding loan. In the rare instance in which the Bank also held a second lien on a first mortgage that was temporarily modified, it would consider the combined debt obligations of both liens in determining potential impairment. Any impairment determined based upon this combined debt would result in a charge-off of the second lien initially, and the first loan only after the full second lien has been eliminated.

Any temporary modification that either: 1) reduced the contractual rate below market as defined in the previous paragraph; 2) forgave principal owed; or 3) satisfied any of the other criteria designated in ASC 310-40-15 was deemed a TDR at both September 30, 2013 and December 31, 2012. Any adjustments to interest rates for loans experiencing sub-optimal underwriting conditions would be authorized under the loan approval and underwriting policies that are summarized beginning on page F-9 in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. Based upon the criteria established by the Bank to review its potential problem loans for impairment, designation of the temporarily modified loans as TDRs would not have had a material impact upon the determination of the adequacy of the Bank's allowance for loan losses at either September 30, 2013 or December 31, 2012.

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The Bank's lending function performs a formal review process that serves as an effective re-underwriting of all temporarily modified loans.

There were no temporary modifications entered into during the three-month and nine-month periods ended September 30, 2013 and 2012.

### Problem Loans Serviced for FNMA Subject to the First Loss Position

The Bank services a pool of multifamily loans sold to FNMA that had an outstanding principal balance of \$216.1 million at September 30, 2013. Pursuant to the sale agreement with FNMA, the Bank retained the First Loss Position.

The First Loss Position totaled \$15.4 million at both September 30, 2013 and December 31, 2012. Against this contingent liability, the Bank has charged through earnings a recorded liability (reserve liability for First Loss Position) of \$1.1 million as of September 30, 2013 and \$1.4 million as of December 31, 2012, leaving approximately \$14.3 million of potential charges to earnings for future losses (if any) as of September 30, 2013. At September 30, 2013, within the pool of multifamily loans sold to FNMA, a \$401,000 loan was delinquent between 30 and 89 days, and no loans were 90 days or more delinquent. At December 31, 2012, within the pool of multifamily loans sold to FNMA, a \$229,000 loan was delinquent between 30 and 89 days, and one \$474,000 loan was 90 days or more delinquent. The Bank manages the collection of these loans in the same manner as portfolio loans. Under the terms of the servicing agreement with FNMA, the Bank is obligated to fund FNMA all monthly principal and interest payments under the original terms of the loans, and to indemnify FNMA for any further losses (as defined in the sale agreement) until the earlier of the following events: (i) the Bank re-acquires the loan from FNMA or it enters OREO status; or (ii) the entire pool of loans sold to FNMA has either been fully satisfied or enters OREO status. However, the aggregate losses incurred by the Bank on this pool of serviced loans cannot exceed the total First Loss Position.

The Bank has previously repurchased, and may opt to continue to repurchase, loans sold to FNMA with recourse exposure that become 90 or more days delinquent. Such repurchased loans are reported as non-performing portfolio loans and are typically purchased from FNMA in order to control losses and expedite resolution of the loan via restructure, note sale or enforcement of legal remedies.

### Reserve Liability on Loan Origination Commitments

The Bank also maintains a reserve liability related to loan origination commitments (recorded in other liabilities) that totaled \$116,000 at September 30, 2013 and \$103,000 at December 31, 2012. The expected loss rates applied to these commitments are consistent with those applied to comparable loans held within the Bank's portfolio. This amount fluctuates based upon the amount and composition of the Bank's loan commitment pipeline.

### Allowance for Loan Losses

The methodology utilized to determine the Company's allowance for loan losses on real estate and consumer loans, along with periodic associated activity, remained constant during the periods ended September 30, 2013, June 30, 2013 and December 31, 2012. The following is a summary of the components of the allowance for loan losses as of the following dates:

|                                       | At<br>September<br>30,<br>2013 | At June<br>30,<br>2013 | At<br>December<br>31,<br>2012 |
|---------------------------------------|--------------------------------|------------------------|-------------------------------|
|                                       | (Dollars in Thousands)         |                        |                               |
| Real Estate Loans:                    |                                |                        |                               |
| Impaired loans                        | \$490                          | \$522                  | \$ 520                        |
| Substandard loans not deemed impaired | 31                             | 375                    | 795                           |
| Special Mention loans                 | 149                            | 234                    | 145                           |

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|                             |          |          |          |
|-----------------------------|----------|----------|----------|
| Pass graded loans           | 19,847   | 19,347   | 19,063   |
| Sub-total real estate loans | 20,517   | 20,478   | 20,523   |
| Consumer loans              | 23       | 24       | 27       |
| TOTAL                       | \$20,540 | \$20,502 | \$20,550 |

Activity related to the allowance for loan losses is summarized for the periods indicated as follows:

|                                            | Three Months<br>Ended<br>September 30,<br>2013 2012 |       | Nine Months<br>Ended<br>September 30,<br>2013 2012 |           |
|--------------------------------------------|-----------------------------------------------------|-------|----------------------------------------------------|-----------|
|                                            | (Dollars in Thousands)                              |       |                                                    |           |
| Net charge-offs                            | \$(202)                                             | \$350 | \$(435)                                            | \$(3,500) |
| Provision                                  | 240                                                 | 126   | 425                                                | 3,858     |
| Transfer from reserve for loan commitments | -                                                   | (159) | -                                                  | (241 )    |

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Changes in the allowance for loan losses were nominal during the nine months ended September 30, 2013, with the provisions approximating the net charge-off activity during the period. Within the components of the allowance for loan losses, lower calculated reserve levels on both impaired loans and Substandard rated loans not deemed impaired were offset by higher calculated reserves on pass graded real estate loans. The reduction in the calculated reserves on both impaired loans and Substandard rated loans not deemed impaired reflected both declines in such loan balances during the nine month ended September 30, 2013, as well as improvement in overall credit quality conditions. The increase in the calculated reserves on pass graded loans reflected both growth in the loan portfolio during the nine months ended September 30, 2013 as well as shifting of loans into a higher reserve calculation category due to the delayed receipt of updated financial information related to either the underlying real estate collateral or the individual borrower.

For a further discussion of the allowance for loan losses and related activity during the three-month and nine-month periods ended September 30, 2013 and 2012, please see Note 9 to the condensed consolidated financial statements. Period-end balances of all Substandard, Special Mention and pass graded real estate loans are summarized in Note 8 to the condensed consolidated financial statements.

### Comparison of Financial Condition at September 30, 2013 and December 31, 2012

**Assets.** Assets totaled \$4.0 billion at September 30, 2013, \$109.9 million above their level at December 31, 2012.

Real estate loans increased \$163.6 million during the nine months ended September 30, 2013. During the nine months ended September 30, 2013, the Bank originated \$859.6 million of real estate loans (including refinancing of existing loans) and purchased \$40.3 million of real estate loans, which exceeded the \$730.2 million aggregate amortization on such loans (also including refinancing of existing loans).

Cash and due from banks decreased by \$13.4 million due to the utilization of cash balances to meet funding obligations. Investment securities available-for-sale declined \$14.5 million during the nine months ended September 30, 2013, as \$14.8 million of agency securities that were called during the period were not replaced. MBS also declined \$14.8 million during the nine months ended September 30, 2013, primarily due to principal amortization during the period. The Company also reduced its investment in FHLBNY common stock by \$3.1 million during the nine months ended September 30, 2013 as a result of a \$70.0 million decline in its outstanding FHLBNY borrowings during the period.

**Liabilities.** Total liabilities increased \$78.8 million during the nine months ended September 30, 2013. Retail deposits (due to depositors) increased \$129.7 million during the period. Please refer to "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of the increase in retail deposits during the nine months ended September 30, 2013. The Company reduced FHLBNY advances by \$70.0 million during the nine months ended September 30, 2013 as a result of the additional liquidity gathered from retail deposits during the period.

**Stockholders' Equity.** Stockholders' equity increased \$31.2 million during the nine months ended September 30, 2013, due primarily to net income of \$33.2 million, \$9.0 million of common stock issued for the exercise of stock options and a \$3.3 million aggregate increase related to either expense amortization or income tax benefits associated with stock benefit plans that added to the cumulative balance of stockholders' equity. Partially offsetting these items were \$14.7 million in cash dividends paid during the period.

### Comparison of Operating Results for the Three Months Ended September 30, 2013 and 2012

**General.** Net income was \$10.6 million during the three months ended September 30, 2013, a reduction of \$1.2 million from net income of \$11.8 million during the three months ended September 30, 2012. During the comparative period, net interest income declined \$1.8 million, the provision for loan losses increased \$114,000, and non-interest

income fell \$566,000. Partially offsetting these reductions to pre-tax income was a decline of \$196,000 in non-interest expense during the comparative period. Income tax expense dropped \$1.1 million during the comparative period due to the reduction of \$2.2 million in pre-tax earnings.

Net Interest Income. The discussion of net interest income for the three months ended September 30, 2013 and 2012 presented below should be read in conjunction with the following tables, which set forth certain information related to the consolidated statements of income for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

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Analysis of Net Interest Income

|                                                                  | Three Months Ended September 30, |          |                           |   | 2012               |          |                           |   |
|------------------------------------------------------------------|----------------------------------|----------|---------------------------|---|--------------------|----------|---------------------------|---|
|                                                                  | 2013                             |          |                           |   |                    |          |                           |   |
|                                                                  | Average<br>Balance               | Interest | Average<br>Yield/<br>Cost |   | Average<br>Balance | Interest | Average<br>Yield/<br>Cost |   |
|                                                                  | (Dollars In Thousands)           |          |                           |   |                    |          |                           |   |
| Assets:                                                          |                                  |          |                           |   |                    |          |                           |   |
| Interest-earning assets:                                         |                                  |          |                           |   |                    |          |                           |   |
| Real estate loans                                                | \$3,644,557                      | \$42,451 | 4.66                      | % | \$3,329,996        | \$45,963 | 5.52                      | % |
| Other loans                                                      | 2,288                            | 25       | 4.37                      |   | 2,421              | 28       | 4.63                      |   |
| MBS                                                              | 35,219                           | 310      | 3.52                      |   | 86,037             | 677      | 3.15                      |   |
| Investment securities                                            | 29,122                           | 84       | 1.15                      |   | 97,926             | 223      | 0.91                      |   |
| Federal funds sold and other short-term investments              | 70,857                           | 416      | 2.35                      |   | 199,888            | 582      | 1.16                      |   |
| Total interest-earning assets                                    | 3,782,043                        | \$43,286 | 4.58                      | % | 3,716,268          | \$47,473 | 5.11                      | % |
| Non-interest earning assets                                      | 198,797                          |          |                           |   | 183,761            |          |                           |   |
| Total assets                                                     | \$3,980,840                      |          |                           |   | \$3,900,029        |          |                           |   |
| Liabilities and Stockholders' Equity:                            |                                  |          |                           |   |                    |          |                           |   |
| Interest-bearing liabilities:                                    |                                  |          |                           |   |                    |          |                           |   |
| Interest bearing checking accounts                               | \$88,471                         | \$49     | 0.22                      | % | \$93,132           | \$48     | 0.21                      | % |
| Money Market accounts                                            | 1,122,644                        | 1,413    | 0.50                      |   | 850,288            | 1,155    | 0.54                      |   |
| Savings accounts                                                 | 380,088                          | 48       | 0.05                      |   | 365,976            | 141      | 0.15                      |   |
| CDs                                                              | 862,792                          | 3,398    | 1.56                      |   | 935,278            | 3,958    | 1.68                      |   |
| Borrowed Funds                                                   | 810,191                          | 6,725    | 3.29                      |   | 993,289            | 8,773    | 3.51                      |   |
| Total interest-bearing liabilities                               | 3,264,186                        | \$11,633 | 1.41                      | % | 3,237,963          | \$14,075 | 1.73                      | % |
| Non-interest bearing checking accounts                           | 169,845                          |          |                           |   | 151,006            |          |                           |   |
| Other non-interest-bearing liabilities                           | 129,350                          |          |                           |   | 128,028            |          |                           |   |
| Total liabilities                                                | 3,563,381                        |          |                           |   | 3,516,997          |          |                           |   |
| Stockholders' equity                                             | 417,459                          |          |                           |   | 383,032            |          |                           |   |
| Total liabilities and stockholders' equity                       | \$3,980,840                      |          |                           |   | \$3,900,029        |          |                           |   |
| Net interest income                                              |                                  | \$31,653 |                           |   |                    | \$33,398 |                           |   |
| Net interest spread                                              |                                  |          | 3.17                      | % |                    |          | 3.38                      | % |
| Net interest-earning assets                                      | \$517,857                        |          |                           |   | \$478,305          |          |                           |   |
| Net interest margin                                              |                                  |          | 3.35                      | % |                    |          | 3.59                      | % |
| Ratio of interest-earning assets to interest-bearing liabilities |                                  |          | 115.86                    | % |                    |          | 114.77                    | % |

Rate/Volume Analysis

|                          | Three Months Ended<br>September 30, 2013<br>Compared to Three Months<br>Ended September 30, 2012<br>Increase/ (Decrease) Due<br>to: |           |           |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
|                          | Volume                                                                                                                              | Rate      | Total     |
|                          | (Dollars In thousands)                                                                                                              |           |           |
| Interest-earning assets: |                                                                                                                                     |           |           |
| Real Estate Loans        | \$3,995                                                                                                                             | \$(7,507) | \$(3,512) |

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|                                                     |         |           |           |
|-----------------------------------------------------|---------|-----------|-----------|
| Other loans                                         | (1 )    | (2 )      | (3 )      |
| MBS                                                 | (424 )  | 57        | (367 )    |
| Investment securities                               | (176 )  | 37        | (139 )    |
| Federal funds sold and other short-term investments | (569 )  | 403       | (166 )    |
| Total                                               | \$2,825 | \$(7,012) | \$(4,187) |

Interest-bearing liabilities:

|                                    |           |           |           |
|------------------------------------|-----------|-----------|-----------|
| Interest bearing checking accounts | \$(2 )    | \$3       | \$1       |
| Money market accounts              | 358       | (100 )    | 258       |
| Savings accounts                   | 2         | (95 )     | (93 )     |
| CDs                                | (292 )    | (268 )    | (560 )    |
| Borrowed funds                     | (1,559)   | (489 )    | (2048 )   |
| Total                              | \$(1,493) | \$(949 )  | \$(2,442) |
| Net change in net interest income  | \$4,318   | \$(6,063) | \$(1,745) |

During the period January 1, 2009 through September 30, 2013, Federal Open Market Committee monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%. As a result, beginning in early 2009, the Company was able to commence an orderly reduction of both its deposit and borrowing costs that continued through September 2013. In addition, both marketplace competition and refinancing activity at reduced rates related to loans secured by multifamily and commercial real estate increased considerably during both the year ended December 31, 2012 and the three months ended September 30, 2013, resulting in a reduction in the average yield on real estate loans. Both of these factors impacted the Company's net interest margin during the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

**Interest Income.** Interest income was \$43.3 million during the three months ended September 30, 2013, a reduction of \$4.2 million from the three months ended September 30, 2012, primarily reflecting reductions of \$3.5 million, \$367,000 and \$140,000 in interest income on real estate loans, MBS and investment securities, respectively. High volumes of prepayment and refinancing on real estate loans at reduced market interest rates lowered the Company's average yield on real estate loans by 86 basis points during the three months ended September 30, 2013 compared to the three months ended September 30, 2012. Partially offsetting the decline in interest income on real estate loans during the three months ended September 30, 2013 compared to the three months ended September 30, 2012 that was attributable to the 86 basis point reduction in their average yield, was an increase of \$314.6 million in their average balance during the comparative period, as the Company increased its loan origination volumes late in 2012, and during the nine months ended September 30, 2013, as part of a measured balance sheet growth strategy. The decline in interest income on MBS resulted from a reduction of \$50.8 million in their average balance from the three months ended September 30, 2012 to the three months ended September 30, 2013. During the period October 1, 2012 through September 30, 2013, purchases of MBS were limited and were exceeded by principal repayments of existing MBS. The decline in interest income on investment securities during the three months ended September 30, 2013 compared to the three months ended September 30, 2012, resulted from a reduction of \$68.8 million in their average balance. Similar to MBS, purchases of investment securities were limited during the period October 1, 2012 through September 30, 2013 and were exceeded by their calls and/or maturity activity.

**Interest Expense.** Interest expense decreased \$2.5 million, to \$11.6 million, during the three months ended September 30, 2013, from \$14.1 million during the three months ended September 30, 2012. This decline resulted primarily from reductions of \$2.0 million and \$561,000 in interest expense on borrowed funds and CDs, respectively, during the comparative period. The reduction in interest expense on borrowed funds resulted from declines of both \$183.1 million in their average balance and 22 basis points in their average cost from the three months ended September 30, 2012 to the three months ended September 30, 2013, as the Company, during the 12-month period ended September 30, 2013, elected to utilize liquidity generated from either deposit growth or increased loan amortization activity to restructure and/or reduce its aggregate level of borrowed funds. The reduction in interest expense on CDs also reflected declines of both \$72.5 million in their average balance and 12 basis points in their average cost during the three months ended September 30, 2013 compared to the three months ended September 30, 2012. Since the Company did not elect to compete aggressively for CDs during the period October 1, 2012 through September 30, 2013, it experienced attrition in the higher cost CDs that matured during the period. The reduction in the average cost of CDs also resulted from ongoing reductions in offering rates on new CDs that occurred from October 1, 2012 through September 30, 2013.

**Provision for Loan Losses.** The provision for loan losses was \$240,000 during the three months ended September 30, 2013, compared to \$126,000 during the three months ended September 30, 2012. The increase of \$114,000 during the comparative period primarily reflected growth in the loan portfolio during the nine months ended September 30, 2013.

**Non-Interest Income.** Total non-interest income decreased \$566,000 from the three months ended September 30, 2012 to the three months ended September 30, 2013, due primarily to a reduction of \$229,000 in service charges and other fee income, reflecting both lower automated teller machine and seasonal loan servicing income. Mortgage banking income also declined \$183,000, as the Company recognized a credit of \$141,000 to reduce the liability in relation to the First Loss Position during the three months ended September 30, 2012, while recognizing a similar

recovery of only \$50,000 during the three months ended September 30, 2013. The servicing fee income component of mortgage banking income also declined as a result of the ongoing reduction in the aggregate balance of serviced loans.

Other non-interest income declined \$166,000 from the three months ended September 30, 2012 to the three months ended September 30, 2013 primarily due to the elimination of rental income on real estate properties that were disposed of in December 2012.

**Non-Interest Expense.** Non-interest expense was \$15.6 million during the three months ended September 30, 2013, a reduction of \$196,000 from \$15.8 million during the three months ended September 30, 2012. Minor variations in several individual non-interest expense items comprised the decline in the comparative period.

Non-interest expense was 1.56% of average assets during the three months ended September 30, 2013, compared to 1.62% during the three months ended September 30, 2012, reflecting both the reduction in non-interest expense and an increase of \$80.8 million in average assets from the three months ended September 30, 2012 to the three months ended September 30, 2013.

**Income Tax Expense.** Income tax expense decreased \$1.1 million during the three months ended September 30, 2013 compared to the three months ended September 30, 2012, due primarily to the reduction of \$2.2 million in pre-tax earnings.

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The Company's consolidated tax rate was 40.4% during the three months ended September 30, 2013, down from the 41.3% level during the three months ended September 30, 2012.

### Comparison of Operating Results for the Nine Months Ended September 30, 2013 and 2012

General. Net income was \$33.2 million during the nine months ended September 30, 2013, a reduction of \$333,000 from net income of \$33.6 million during the nine months ended September 30, 2012. During the comparative period, net interest income fell \$3.6 million and non-interest income dropped \$1.7 million. Partially offsetting these reductions to pre-tax income were declines of \$3.4 million in the provision for loan losses and \$624,000 in non-interest expense, respectively. Income tax expense was \$906,000 lower during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, reflecting both a reduction of \$1.2 million in pre-tax earnings and a decline in the effective tax rate from 41.0% to 40.3% during the comparative period.

Net Interest Income. The discussion of net interest income for the nine months ended September 30, 2013 and 2012 presented below should be read in conjunction with the following tables, which set forth certain information related to the consolidated statements of income for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The average yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

### Analysis of Net Interest Income

|                                                     | Nine Months Ended September 30 |           |                           |   | 2012               |           |                           |   |
|-----------------------------------------------------|--------------------------------|-----------|---------------------------|---|--------------------|-----------|---------------------------|---|
|                                                     | Average<br>Balance             | Interest  | Average<br>Yield/<br>Cost |   | Average<br>Balance | Interest  | Average<br>Yield/<br>Cost |   |
| (Dollars In Thousands)                              |                                |           |                           |   |                    |           |                           |   |
| Assets:                                             |                                |           |                           |   |                    |           |                           |   |
| Interest-earning assets:                            |                                |           |                           |   |                    |           |                           |   |
| Real estate loans                                   | \$3,583,452                    | \$130,291 | 4.85                      | % | \$3,387,534        | \$143,735 | 5.66                      | % |
| Other loans                                         | 2,189                          | 74        | 4.51                      |   | 1,870              | 76        | 5.42                      |   |
| MBS                                                 | 40,122                         | 1,123     | 3.73                      |   | 89,154             | 2,456     | 3.67                      |   |
| Investment securities                               | 33,677                         | 316       | 1.25                      |   | 122,552            | 1,043     | 1.13                      |   |
| Federal funds sold and other short-term investments | 122,342                        | 1,423     | 1.55                      |   | 186,189            | 1,895     | 1.36                      |   |
| Total interest-earning assets                       | 3,781,782                      | \$133,227 | 4.70                      | % | 3,787,299          | \$149,205 | 5.25                      | % |
| Non-interest earning assets                         | 196,684                        |           |                           |   | 178,618            |           |                           |   |
| Total assets                                        | \$3,978,466                    |           |                           |   | \$3,965,917        |           |                           |   |
| Liabilities and Stockholders' Equity:               |                                |           |                           |   |                    |           |                           |   |
| Interest-bearing liabilities:                       |                                |           |                           |   |                    |           |                           |   |
| Interest bearing checking accounts                  | \$91,397                       | \$189     | 0.28                      | % | \$93,172           | \$141     | 0.20                      | % |
| Money Market accounts                               | 1,088,223                      | 4,309     | 0.53                      |   | 810,179            | 3,326     | 0.55                      |   |
| Savings accounts                                    | 378,866                        | 213       | 0.08                      |   | 362,429            | 442       | 0.16                      |   |
| CDs                                                 | 876,185                        | 10,529    | 1.61                      |   | 960,293            | 12,540    | 1.74                      |   |
| Borrowed Funds                                      | 820,386                        | 20,267    | 3.30                      |   | 1,081,514          | 31,465    | 3.89                      |   |
| Total interest-bearing liabilities                  | 3,255,057                      | \$35,507  | 1.46                      | % | 3,307,587          | \$47,914  | 1.94                      | % |
| Non-interest bearing checking accounts              | 168,936                        |           |                           |   | 150,914            |           |                           |   |
| Other non-interest-bearing liabilities              | 148,254                        |           |                           |   | 133,857            |           |                           |   |
| Total liabilities                                   | 3,572,247                      |           |                           |   | 3,592,358          |           |                           |   |
| Stockholders' equity                                | 406,219                        |           |                           |   | 373,559            |           |                           |   |

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|                                                                  |             |          |          |             |           |          |
|------------------------------------------------------------------|-------------|----------|----------|-------------|-----------|----------|
| Total liabilities and stockholders' equity                       | \$3,978,466 |          |          | \$3,965,917 |           |          |
| Net interest income                                              |             | \$97,720 |          |             | \$101,291 |          |
| Net interest spread                                              |             |          | 3.24 %   |             |           | 3.32 %   |
| Net interest-earning assets                                      | \$526,725   |          |          | \$479,712   |           |          |
| Net interest margin                                              |             |          | 3.45 %   |             |           | 3.57 %   |
| Ratio of interest-earning assets to interest-bearing liabilities |             |          | 116.18 % |             |           | 114.50 % |

## Rate/Volume Analysis

|                                                     | Nine Months Ended<br>September 30, 2013<br>Compared to Nine Months<br>Ended September 30, 2012<br>Increase/ (Decrease) Due to:<br>Volume    Rate        Total<br>(Dollars In thousands) |            |            |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Interest-earning assets:                            |                                                                                                                                                                                         |            |            |
| Real Estate Loans                                   | \$7,724                                                                                                                                                                                 | \$(21,168) | \$(13,444) |
| Other loans                                         | 12                                                                                                                                                                                      | (14 )      | (2 )       |
| MBS                                                 | (1,362 )                                                                                                                                                                                | 29         | (1,333 )   |
| Investment securities                               | (797 )                                                                                                                                                                                  | 70         | (727 )     |
| Federal funds sold and other short-term investments | (694 )                                                                                                                                                                                  | 222        | (472 )     |
| Total                                               | \$4,883                                                                                                                                                                                 | \$(20,861) | \$(15,978) |
| Interest-bearing liabilities:                       |                                                                                                                                                                                         |            |            |
| Interest bearing checking accounts                  | \$(6 )                                                                                                                                                                                  | \$54       | \$48       |
| Money market accounts                               | 1,122                                                                                                                                                                                   | (139 )     | 983        |
| Savings accounts                                    | 4                                                                                                                                                                                       | (233 )     | (229 )     |
| CDs                                                 | (1,087 )                                                                                                                                                                                | (924 )     | (2,011 )   |
| Borrowed funds                                      | (7,007 )                                                                                                                                                                                | (4,191 )   | (11,198)   |
| Total                                               | \$(6,974 )                                                                                                                                                                              | \$(5,433 ) | \$(12,407) |
| Net change in net interest income                   | \$11,857                                                                                                                                                                                | \$(15,428) | \$(3,571 ) |

During the period January 1, 2009 through September 30, 2013, Federal Open Market Committee monetary policies resulted in the maintenance of the overnight federal funds rate in a range of 0.0% to 0.25%. As a result, beginning in early 2009, the Company was able to commence an orderly reduction of both its deposit and borrowing costs that continued through September 2013. In addition, both marketplace competition and refinancing activity related to loans secured by multifamily and commercial real estate increased considerably during both the year ended December 31, 2012 and the nine months ended September 30, 2013, resulting in a reduction in the average yield on real estate loans. Both of these factors impacted the Company's net interest margin during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

**Interest Income.** Interest income was \$133.2 million during the nine months ended September 30, 2013, a reduction of \$16.0 million from the nine months ended September 30, 2012, primarily reflecting reductions of \$13.4 million, \$1.3 million and \$727,000 in interest income on real estate loans, MBS and investment securities, respectively. High volumes of real estate loan prepayment and refinancing at reduced market interest rates lowered the Company's average yield on real estate loans by 81 basis points during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The decline in interest income on MBS reflected a reduction of \$49.0 million in their average balance from the nine months ended September 30, 2012 to the nine months ended September 30, 2013. During the period October 1, 2012 through September 30, 2013, purchases of MBS were limited and were exceeded by principal repayments of existing MBS. Partially offsetting the decline in interest income on real estate loans during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 that was attributable to the 81 basis point reduction in their average yield, was an increase of \$195.9 million in their average balance during the comparative period, as the Company increased its loan origination volumes late in 2012 and during the nine months ended September 30, 2013, as part of a measured balance sheet growth strategy. The decline in interest income on investment securities during the nine months ended September 30, 2013 compared to the

nine months ended September 30, 2012 resulted from a reduction of \$88.9 million in their average balance, which was partially offset by an increase of 12 basis points in their average yield. Similar to MBS, purchases of investment securities were limited during the period October 1, 2012 through September 30, 2013 and were exceeded by their calls and/or maturity activity. Since the great majority of the investment securities that either were called or matured during the period October 1, 2012 through September 30, 2013 possessed yields between 0.50% and 1.0%, their removal served to improve the average yield on the aggregate portfolio of investment securities during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

**Interest Expense.** Interest expense decreased \$12.4 million, to \$35.5 million, during the nine months ended September 30, 2013, from \$47.9 million during the nine months ended September 30, 2012. This decline resulted primarily from reductions of \$11.2 million and \$2.0 million in interest expense on borrowed funds and CDs, respectively, during the comparative period. The reduction in interest expense on borrowed funds resulted from declines of both \$261.1 million in their average balance and 59 basis points in their average cost from the nine months ended September 30, 2012 to the nine months ended September 30, 2013, as the Company, during the 12-month period ended September 30, 2013, elected to utilize liquidity generated from either deposit growth or increased loan amortization activity to restructure and/or reduce its aggregate level of borrowed funds. The reduction in interest expense on CDs also reflected declines of both \$84.1 million in their average balance and 13 basis points in their average cost during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. Since the Company did not elect to compete aggressively for CDs during the period October 1, 2012 through September 30, 2013, it experienced attrition in the higher cost CDs that

matured during the period. The reduction in the average cost of CDs also resulted from ongoing reductions in offering rates on new CDs that occurred from October 1, 2012 through September 30, 2013.

**Provision for Loan Losses.** The provision for loan losses was \$425,000 during the nine months ended September 30, 2013, compared to \$3.9 million during the nine months ended September 30, 2012. The reduction reflected the improvement in the overall credit quality of the loan portfolio from October 1, 2012 through September 30, 2013.

During the period October 1, 2012 through September 30, 2013, the Company experienced declines in both non-accrual and delinquent loans, as well as minimal net charge-off activity.

**Non-Interest Income.** Total non-interest income decreased \$1.7 million from the nine months ended September 30, 2012 to the nine months ended September 30, 2013, due primarily to a reduction of \$1.1 million in mortgage banking income, as the Company recognized a credit of \$1.1 million to reduce the liability in relation to the First Loss Position during the nine months ended September 30, 2012, while recognizing a similar recovery of only \$245,000 during the nine months ended September 30, 2013. The servicing fee income component of mortgage banking income also declined \$249,000 during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 as a result of the ongoing reduction in the aggregate balance of serviced loans. From the nine months ended September 30, 2012 to the nine months ended September 30, 2013, service charges and other fee income fell \$286,000 due primarily to lower automated teller machine income, and other non-interest income declined \$575,000 mainly as a result of the elimination of rental income on real estate properties that were disposed of in December 2012.

**Non-Interest Expense.** Non-interest expense was \$47.2 million during the nine months ended September 30, 2013, a reduction of \$624,000 from \$47.8 million during the nine months ended September 30, 2012, primarily due to lower legal expenses of \$648,000, marketing expenses of \$210,000 and regulatory examination costs of \$331,000, that were partially offset by increases of \$304,000 and \$310,000 in occupancy and equipment and data processing costs, respectively, during the comparative period.

Non-interest expense was 1.58% of average assets during the nine months ended September 30, 2013, compared to 1.61% during the nine months ended September 30, 2012, reflecting both the reduction in non-interest expense and an increase of \$12.5 million in average assets from the nine months ended September 30, 2012 to the nine months ended September 30, 2013.

**Income Tax Expense.** Income tax expense decreased \$906,000 during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, due primarily to a reduction of \$1.2 million in pre-tax earnings. The Company's consolidated tax rate was 40.3% during the nine months ended September 30, 2013, down from 41.0% during the nine months ended September 30, 2012.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk were presented at December 31, 2012 in Item 7A of the Company's Annual Report on Form 10-K, filed with the SEC on March 15, 2013. The following is an update of the discussion provided therein.

**General.** Virtually all of the Company's market risk continues to reside at the Bank level. The Bank's largest component of market risk remains interest rate risk. The Company is not subject to foreign currency exchange or commodity price risk. At September 30, 2013, the Company owned nine mutual fund investments totaling \$5.3 million that were designated as trading. At September 30, 2013, the Company did not conduct transactions involving derivative instruments requiring bifurcation in order to hedge interest rate or market risk.

Assets, Deposit Liabilities and Wholesale Funds. There was no material change in the composition of assets, deposit liabilities or wholesale funds from December 31, 2012 to September 30, 2013. See "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of deposit and borrowing activity during the period.

#### Interest Rate Risk Exposure Analysis

Economic Value of Equity ("EVE") Analysis. At September 30, 2013, the Bank continued to monitor the impact of interest rate volatility upon EVE in the same manner as at December 31, 2012.

The analysis that follows presents the estimated EVE resulting from market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under other interest rate scenarios (each a "Rate Shock Scenario") represented by immediate, permanent, parallel shifts in interest rates from those observed at September 30, 2013 and December 31, 2012. The analysis additionally presents a measurement of the interest rate sensitivity at September 30, 2013 and December 31, 2012. Prior to June 30, 2013, interest rate sensitivity was measured by the basis point changes in the various ratios of EVE as a percentage of the aggregate fair value of assets. The basis point changes in conjunction with the respective "Rate Shock Scenario" would show the Bank's interest rate exposure. Commencing as of June 30, 2013, the Bank changed its primary measure of interest rate sensitivity to the percentage change in the various EVE values ("EVE Dollar Amount") from the Pre-Shock Scenario to the Rate Shock Scenarios. EVE Dollar Amounts represent the difference between the market value of the Bank's assets and liabilities plus the value of any off-balance sheet items, such as firm

commitments to originate, purchase or sell derivatives, if applicable. EVE Dollar Amounts are computed under each respective Pre- and Rate Shock Scenario. An increase in the EVE Dollar Amount is considered favorable, while a decline is considered unfavorable.

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

|                        | At September 30, 2013<br>(Dollars in thousands) |                  |                      |                                                    |       | At December 31, 2012<br>(Dollars in thousands) |                  |                      |                                                    |   |     |
|------------------------|-------------------------------------------------|------------------|----------------------|----------------------------------------------------|-------|------------------------------------------------|------------------|----------------------|----------------------------------------------------|---|-----|
|                        | EVE<br>Dollar<br>Amount                         | Dollar<br>Change | Percentage<br>Change | Board<br>Approved<br>Percentage<br>Change<br>Limit |       | EVE<br>Dollar<br>Amount                        | Dollar<br>Change | Percentage<br>Change | Board<br>Approved<br>Percentage<br>Change<br>Limit |   |     |
| Rate Shock<br>Scenario |                                                 |                  |                      |                                                    |       |                                                |                  |                      |                                                    |   |     |
| + 200 Basis Points     | \$432,839                                       | \$(35,867)       | -10.7                | %                                                  | -18.5 | %                                              | \$431,313        | \$(12,896)           | -2.9                                               | % | n/a |
| Pre-Shock<br>Scenario  | 468,706                                         | -                | -                    | -                                                  |       | 444,209                                        | -                | -                    | -                                                  |   |     |

The Pre-Shock Scenario EVE was \$468.7 million at September 30, 2013, compared to \$444.2 million at December 31, 2012. The increase in the Pre-Shock Scenario EVE at September 30, 2013 compared to December 31, 2012 resulted primarily from a more favorable valuation of both borrowings and CDs that reflected reductions in the average costs of these liabilities from December 31, 2012 to September 30, 2013.

The Bank's +200 basis point Rate Shock Scenario EVE increased from its \$431.3 million balance at December 31, 2012 to \$432.8 million at September 30, 2013, reflecting the more favorable valuation of both borrowings and CDs that resulted from reductions in the average costs of these liabilities from December 31, 2012 to September 30, 2013.

The percentage change in the EVE Dollar Amount from the Pre-Shock Scenario to the +200 basis point Rate Shock Scenario increased from 2.9% at December 31, 2012 to 10.7% at September 30, 2013. The increase in sensitivity resulted from a reduced benefit in the valuation of both CDs and borrowings in the +200 basis point Rate Shock Scenario EVE as of September 30, 2013 compared to December 31, 2012.

**Income Simulation Analysis.** As of the end of each quarterly period, the Bank also monitors the impact of interest rate changes through a net interest income simulation model. This model estimates the impact of interest rate changes on the Bank's net interest income over forward-looking periods typically not exceeding 24 months (a considerably shorter period than measured through the EVE analysis). The following table discloses the estimated changes to the Bank's net interest income over the 12-month period ending September 30, 2014 assuming instantaneous changes in

interest rates for the given Rate Shock Scenarios:

|                                           | Percentage<br>Change in<br>Aggregate<br>Net<br>Interest<br>Income |    |
|-------------------------------------------|-------------------------------------------------------------------|----|
| Instantaneous Change in Interest rate of: |                                                                   |    |
| + 200 Basis Points                        | (11.5                                                             | )% |
| + 100 Basis Points                        | (6.1                                                              | )  |
| -100 Basis Points                         | 2.4                                                               |    |

#### Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of September 30, 2013, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management, the Company is involved in no actions or proceedings that will have a material adverse impact on its financial condition and results of operations.

Item 1A. Risk Factors

There were no material changes from the risks disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

(c) The Holding Company did not repurchase any shares of its common stock into treasury during the three months ended September 30, 2013. No existing repurchase programs expired during the three months ended September 30, 2013, nor did the Company terminate any repurchase programs prior to expiration during the period. As of September 30, 2013, the Holding Company had an additional 1,124,549 shares remaining eligible for repurchase under its twelfth stock repurchase program, which was publicly announced in June 2007.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number

- 3(i) Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)
- 3(ii) Amended and Restated Bylaws of Dime Community Bancshares, Inc. (18)
- 4.1 Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
- 4.2 Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
- 4.3 Draft Stock Certificate of Dime Community Bancshares, Inc. (2)
- 4.4 Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the

- assets of Dime Community Capital Trust I (5)
- Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (5)
- Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (5)
- Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (12)
- Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (12)
- Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (12)

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- 10.4 Employment Agreement between Dime Community Bancshares, Inc. and Vincent F. Palagiano (12)
- 10.5 Employment Agreement between Dime Community Bancshares, Inc. and Michael P. Devine (12)
- 10.6 Employment Agreement between Dime Community Bancshares, Inc. and Kenneth J. Mahon (12)
- 10.7 Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (14)
- 10.8 The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (11)
- 10.9 Severance Pay Plan of The Dime Savings Bank of Williamsburgh (9)
- 10.10 Retirement Plan for Board Members of Dime Community Bancorp, Inc. (9)
- 10.12 Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (3)
- 10.13 Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (3)
- 10.14 Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (3)
- 10.20 Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (13)
- 10.21 Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (8)
- 10.22 Waiver executed by Vincent F. Palagiano (7)
- 10.23 Waiver executed by Michael P. Devine (7)
- 10.24 Waiver executed by Kenneth J. Mahon (7)
- 10.25 Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (6)
- 10.27 Form of restricted stock award notice for outside directors under the 2004 Stock Incentive Plan (6)
- 10.28 Employee Retention Agreement between The Dime Savings Bank of Williamsburgh, Dime Community Bancshares, Inc. and Daniel Harris (9)
- 10.29 Dime Community Bancshares, Inc. Annual Incentive Plan (9)
- 10.30 The Dime Savings Bank of Williamsburgh 401(K) Savings Plan (Amended and Restated Effective January 1, 2010) (10)
- 10.31 Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (9)
- 10.32 Amendment to the Benefit Maintenance Plan (15)
- 10.33 Amendments to the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates (16)
- 10.34 Dime Community Bancshares, Inc. 2013 Equity And Incentive Plan (17)
- 12.1 Computation of ratio of earnings to fixed charges
- 31(i).1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31(i).2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350
- 101\*\* Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2012 is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2012 and 2011, (ii) the Consolidated Statements of Income, Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for the years ended December 31, 2012, 2011 and 2010, and (iv) the Notes to Consolidated Financial Statements.

\*\* Furnished, not filed, herewith.

- (1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.

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- (2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.
- (3) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.
- (4) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.
- (5) Incorporated by reference to Exhibits to the registrant's Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.
- (6) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.
- (7) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.
- (8) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 8, 2008.
- (9) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 16, 2009.
- (10) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed on May 10, 2010.

- (11) Incorporated by reference to the registrant's Current Report on Form 8-K filed on April 4, 2011.
- (12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 filed on May 10, 2011.
- (13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed on August 9, 2011.
- (14) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed on May 9, 2012.
- (15) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed on November 13, 2012.
- (16) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 15, 2013.
- (17) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on August 9, 2013.
- (18) Incorporated by reference to the registrant's Current Report on Form 8-K filed on October 30, 2013.

## SIGNATURES

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

Dime Community Bancshares, Inc.

Dated: November 8, 2013 By: /s/ VINCENT F. PALAGIANO

Vincent F. Palagiano

Chairman of the Board and Chief Executive Officer

Dated: November 8, 2013 By: /s/ KENNETH J. MAHON

Kenneth J. Mahon

Senior Executive Vice President and Chief Financial Officer (Principal Accounting Officer)