NORTHEAST COMMUNITY BANCORP INC
Form 10-K
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

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

Commission File Number: **0-51852**

NORTHEAST COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

UNITED STATES	**06-1786701**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
325 Hamilton Avenue, White Plains, New York	**10601**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (914) 684-2500

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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 the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ý

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2013 was approximately $30.1 million.

The number of shares outstanding of the registrant's common stock as of March 14, 2014 was 12,462,052.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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This report contains certain "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on Northeast Community Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which Northeast Community Bancorp, Inc. operates, as well as nationwide, Northeast Community Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates, demand for loans and deposits, changes in quality or composition of our loan portfolio and changes in federal and state legislation and regulation. For further discussion of factors that may affect our results, see "Item 1A. Risk Factors" in this Annual Report on Form 10-K ("Form 10-K"). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Northeast Community Bancorp, Inc. assumes no obligation to update any forward-looking statements.

PART I

Item 1. BUSINESS

General

Northeast Community Bancorp, Inc. ("Northeast Community Bancorp" or the "Company") is a federally chartered stock holding company established on July 5, 2006 to be the holding company for Northeast Community Bank (the "Bank"). Northeast Community Bancorp's business activity is the ownership of the outstanding capital stock of the Bank. Northeast Community Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement.

Northeast Community Bancorp, MHC (the "MHC") is the Company's federally chartered mutual holding company parent. As a mutual holding company, the MHC is a non-stock company that has as its members the depositors of Northeast Community Bank. The MHC does not engage in any business activity other than owning a majority of the common stock of Northeast Community Bancorp. So long as we remain in the mutual holding company form of organization, the MHC will own a majority of the outstanding shares of Northeast Community Bancorp.

Northeast Community Bank was originally chartered in 1934 as a federal savings association. In 2006, Northeast Community Bank changed its name from "Fourth Federal Savings Bank" to "Northeast Community Bank." The Bank completed its conversion from a federally-chartered savings bank to a New York State-chartered savings bank

effective as of the close of business on June 29, 2012.

We operate as a community-oriented financial institution offering traditional financial services to consumers and businesses in our market area and our lending territory. We attract deposits from the general public and use those funds to originate multi-family residential and mixed-use real estate and non-residential loans, which we hold for investment. We have been originating multi-family, mixed-use and non-residential real estate loans for over 75 years. In 2007, we established a new commercial and industrial loan department and have increased this portfolio from no commercial and industrial loans at March 31, 2007 to $51.6 million in commercial and industrial lines of credit committed with $21.6 million drawn and $9.8 million in commercial and industrial term loans at December 31, 2013. We on occasion originate owner occupied one- to four-family residential mortgage loans as investment vehicles as an accommodation to develop and/or maintain relationships with our deposit and certain of our multi-family, mixed-use, non-residential, and commercial and industrial loan customers. We offer investment advisory and financial planning services under the name Hayden Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

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Available Information

Our website address is www.necommunitybank.com. Information on our website should not be considered a part of this Form 10-K.

Market Area

We are headquartered in White Plains, New York, which is located in Westchester County and we operate through our main and annex offices in White Plains, our four full-service branch offices in the New York City boroughs of Manhattan (New York County) and Bronx (Bronx County), our four full-service branches in Danvers (Essex County), Plymouth (Plymouth County), Framingham (Middlesex County) and Quincy (Norfolk County), Massachusetts and our loan production offices in Massachusetts and New York. We generate deposits through our main office and eight branch offices. We conduct lending activities throughout the Northeastern United States, including New York, Massachusetts, New Jersey, Connecticut, Pennsylvania, and New Hampshire.

Our primary market area includes a population base with a broad cross section of wealth, employment and ethnicity. We operate in markets that generally have experienced relatively slow demographic growth, a characteristic typical of mature urban markets located throughout the Northeast region. New York County is a relatively affluent market, reflecting the influence of Wall Street along with the presence of a broad spectrum of Fortune 500 companies. Comparatively, Bronx County is home to a broad socioeconomic spectrum, with a significant portion of the respective populations employed in relatively low and moderate wage blue collar jobs. Westchester and neighboring counties are affluent markets, serving as desired suburban locations for commuting into New York City and White Plains as well as reflecting growth of higher paying jobs in the counties.

The counties in which the Danvers, Plymouth, Framingham, and Quincy offices currently operate include a mixture of rural, suburban and urban markets. The economies of these areas were historically based on manufacturing, but, similar to many areas of the country, the underpinnings of these economies are now more service oriented, with employment spread across many economic sectors including service, finance, health-care, technology, real estate and government.

While each of the states in our lending area has different economic characteristics, our customer base in these states tends to be similar to our customer base in New York and is comprised mostly of owners of low to moderate income apartment buildings or non-residential real estate in low to moderate income areas. Outside the State of New York, our largest concentration of real estate loans is in Massachusetts.

Competition

We face significant competition for the attraction of deposits. The New York and Boston metropolitan areas have a significant concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Over the past 10 years, consolidation of the banking industry in the New York and Boston metropolitan areas has continued, resulting in larger and increasingly efficient competitors. We also face competition for depositors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2013, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held less than 1.00% of the deposits in each of the counties in New York and Massachusetts in which our offices are located.

We also face significant competition for the origination of loans. Our competition for loans comes primarily from financial institutions in our lending territory, and, to a lesser extent, from other financial service providers such as insurance companies, hedge funds and mortgage companies. As our lending territory is based around densely populated areas surrounding urban centers, we face significant competition from regional banks, savings banks and commercial banks in the New York and Boston metropolitan areas as well as in the other states that we designate as our lending territory. The competition for loans that we encounter, as well as the types of institutions with which we compete, varies from time to time depending upon certain factors, including the general availability of lendable funds and credit, general and local economic conditions, current interest rate levels, volatility in the mortgage markets and other factors which are not readily predictable.

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We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Competition for deposits and the origination of loans could limit our future growth.

Lending Activities

General. We originate loans primarily for investment purposes. The largest segment of our loan portfolio is multi-family residential real estate loans. We also originate mixed-use real estate loans and non-residential loans and in 2007 we began originating commercial and industrial loans. To a limited degree, we make consumer loans. We on occasion originate non-owner occupied one- to four-family residential mortgage loans as investment vehicles as an accommodation to develop and/or maintain relationships with our deposit and certain of our multi-family, mixed-use, non-residential, and commercial and industrial loan customers. We consider our lending territory to be the Northeastern United States, including New York, Massachusetts, New Jersey, Connecticut, Pennsylvania, and New Hampshire.

Due to market conditions in 2009, we discontinued purchasing participation interests in construction loans. In 2012, we commenced originating construction loans secured by multi-family, mixed-use, and non-residential properties.

Multi-family and Mixed-use Real Estate Loans. We offer adjustable rate mortgage loans secured by multi-family and mixed-use real estate. These loans are comprised primarily of loans on moderate income apartment buildings located in our lending territory and include, loans on cooperative apartment buildings (in the New York area), and loans for Section 8 multi-family housing. In New York, most of the apartment buildings that we lend on are rent-stabilized. Mixed-use real estate loans are secured by properties that are intended for both residential and business use. Until 2004, our policy had been to originate multi-family and mixed-use real estate loans primarily in the New York metropolitan area. In January 2004, we opened our first location outside of New York and now originate multi-family and mixed-use real estate loans in several northeastern states.

We originate a variety of adjustable-rate and balloon multi-family and mixed-use real estate loans. The adjustable-rate loans have fixed rates for a period of up to five years and then adjust every one, two, three or five years thereafter, based on the terms of the loan. Maturities on these loans can be up to 15 years, and typically they amortize over a 20 to 30-year period. Interest rates on our adjustable-rate loans are adjusted to a rate that equals the applicable one-, two-, three- or five-year Federal Home Loan Bank of New York or Federal Home Loan Bank of Boston advance rate plus a margin. The balloon loans have a maximum maturity of five years. The lifetime interest rate cap is five percentage points over the initial interest rate of the loan (four percentage points for loans with one-, two- and three-year terms). Due to the nature of our borrowers and our lending niche, the typical multi-family or mixed-use real estate loan refinances within the first five-year period and, in doing so, generates prepayment penalties ranging from five points

to one point of the outstanding loan balance. Under our loan-refinancing program, borrowers who are current under the terms and conditions of their contractual obligations can apply to refinance their existing loans to the rates and terms then offered on new loans after the payment of their contractual prepayment penalties. These refinances are not considered troubled debt restructures.

In making multi-family and mixed-use real estate loans, we primarily consider the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and our lending experience with the borrower. We typically require a personal guarantee of the borrower. We rate the property underlying the loan as Class A, B or C. Our current policy is to require a minimum debt service coverage ratio (the ratio of earnings after subtracting all operating expenses to debt service payments) of 1.25x depending on the rating of the underlying property. On multi-family and mixed-use real estate loans, our current policy is to finance up to 75% of the lesser of the appraised value or purchase price of the property securing the loan on purchases and refinances of Class A and B properties and up to 65% of the lesser of the appraised value or purchase price for properties that are rated Class C. Properties securing multi-family and mixed-use real estate loans are appraised by independent appraisers, inspected by us and generally require Phase 1 environmental surveys.

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We have been originating multi-family and mixed-use real estate loans in the New York market area for 80 years. In the New York market area, our ability to continue to grow our portfolio is dependent on the continuation of our relationships with mortgage brokers, as the multi-family and mixed-use real estate loan market is primarily broker driven. We have longstanding relationships with mortgage brokers in the New York market area, who are familiar with our lending practices and our underwriting standards. We also deal directly with building owners throughout our lending territory.

In the Massachusetts market area, the primary source of mortgage loan originations are from personal contacts by our loan officers, referrals from existing customers and advertising. We generally retain for our portfolio all of the loans that we originate in the Massachusetts market area.

The majority of the multi-family real estate loans in our portfolio are secured by twenty unit to one hundred unit apartment buildings. At December 31, 2013, the majority of our mixed-use real estate loans are secured by properties that are at least 75% residential, but contain some non-residential space.

On December 31, 2013, the largest outstanding multi-family real estate loan had a balance of $8.6 million and was performing according to its terms at December 31, 2013. This loan is secured by a 216 unit apartment complex located in Philadelphia, Pennsylvania. The largest mixed-use real estate loan had a balance of $3.0 million and was performing according to its terms at December 31, 2013. This loan is secured by a mixed-use building with 7 apartment units and 1 commercial unit located in New York, New York. As of December 31, 2013, the average loan balance in our multi-family and mixed-use portfolio was approximately $684,000.

Non-residential Real Estate Loans. Our non-residential real estate loans are generally secured by office buildings, medical facilities and retail shopping centers that are primarily located within our lending territory.

Our non-residential real estate loans are structured in a manner similar to our multi-family and mixed-use real estate loans, typically at a fixed rate of interest for three to five years and then a rate that adjusts every three to five years over the term of the loan, which is typically 15 years. Interest rates and payments on these loans generally are based on the one-, two-, three- or five-year Federal Home Loan Bank of New York or Federal Home Loan Bank of Boston advance rate plus a margin. The lifetime interest rate cap is five percentage points over the initial interest rate of the loan (four percentage points for loans with one-, two- and three-year terms). Loans are secured by first mortgages that generally do not exceed 75% of the property’s appraised value. Properties securing non-residential real estate loans are appraised by independent appraisers and inspected by us.

We also charge prepayment penalties, with five points of the outstanding loan balance generally being charged on loans that refinance in the first year of the mortgage, scaling down to one point on loans that refinance in year five. These loans are typically repaid or the term extended before maturity, in which case a new rate is negotiated to meet

market conditions and an extension of the loan is executed for a new term with a new amortization schedule. Our non-residential real estate loans tend to refinance within the first five-year period.

Our assessment of credit risk and our underwriting standards and procedures for non-residential real estate loans are similar to those applicable to our multi-family and mixed-use real estate loans. In reaching a decision on whether to make a non-residential real estate loan, we consider the net operating income of the property, the borrower’s expertise, credit history and profitability and the value of the underlying property. In addition, with respect to rental properties, we will also consider the term of the lease and the credit quality of the tenants. We have generally required that the properties securing non-residential real estate loans have debt service coverage ratios (the ratio of earnings after subtracting all operating expenses to debt service payments) of at least 1.25x. Phase 1 environmental surveys and property inspections are required for all loans.

At December 31, 2013, we had $82.0 million in non-residential real estate loans outstanding, or 22.1% of total loans. At December 31, 2013, the largest outstanding non-residential real estate loan had an outstanding balance of $3.8 million. This loan is secured by an office building located in Syracuse, New York, and was performing according to its terms at December 31, 2013. At December 31, 2013, the largest outstanding non-residential real estate loan relationship with one borrower was comprised of the aforementioned loan and four other loans totaling $8.4 million secured by five office buildings located in the Syracuse, New York area. These five loans were performing according to their terms at December 31, 2013. As of December 31, 2013, the average balance of loans in our non-residential loan portfolio was $882,000.

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Equity Lines of Credit on Real Estate Loans. Northeast Community Bank offers equity lines of credit on multi-family, mixed-use and non-residential real estate properties on which it holds the first mortgage.

For existing borrowers only, we offer an equity line of credit program secured by a second mortgage on the borrower's multi-family and mixed-use property. All lines of credit are underwritten separately from the first mortgage and support debt service ratios and loan-to-value ratios that when combined with the first mortgage meet or exceed our current underwriting standards for multi-family and mixed-use real estate loans. Borrowers typically hold these lines in reserve and use them for ongoing property improvements or to purchase additional properties when the opportunity arises.

Our equity lines of credit are typically interest only for the first five years and then the remaining term of the line of credit is tied to the remaining term on the first mortgage on the multi-family or mixed-use property. After the first five years, a payment of both principal and interest is required. Interest rates and payments on our equity lines of credit are indexed to the prime rate as published in *The Wall Street Journal* and adjusted as the prime rate changes. Interest rate adjustments on equity lines of credit are limited to a specified maximum percentage over the initial interest rate.

Commercial and Industrial (C&I) Loans. Continuing our plan to diversify our portfolio, both geographically and by product type, we established a commercial and industrial lending department in March 2007. Interest rates and payments on our commercial and industrial loans are typically indexed to the prime rate as published in the *Wall Street Journal* and adjusted as the prime rate changes. Our commercial and industrial loan portfolio increased from $35.9 million in commercial and industrial lines of credit committed with $18.0 million drawn and $5.7 million in commercial and industrial term loans at December 31, 2011 to $51.6 million in commercial and industrial lines of credit committed with $21.6 million drawn and $9.8 million in commercial and industrial term loans at December 31, 2013.

At December 31, 2013, the largest commercial and industrial line of credit was a line of credit totaling $7.0 million, with no outstanding balance. This loan is secured by the assets of a construction business.

At December 31, 2013, the largest outstanding commercial and industrial loan and the largest outstanding commercial and industrial line of credit relationship with one borrower was comprised of two lines of credit totaling $8.5 million, with outstanding balances totaling $6.5 million and remaining available lines of credit totaling $2.0 million. One of the lines of credit totaling $5.5 million, with a $4.2 million outstanding balance and a remaining available line of $1.3 million, is the Company's largest outstanding commercial and industrial line of credit. The two lines of credit serve as a warehousing line of credit for an originator of Small Business Administration guaranteed loans located in New York City and are secured by these Small Business Administration loans.

All the aforementioned commercial and industrial loans were performing according to their terms at December 31, 2013.

Construction Loans. Construction loans are typically for twelve to twenty-four month terms, pay interest only during that period, and are indexed to the prime rate plus a margin. All construction loans are underwritten as if they will be rental properties and must meet our normal debt service and loan to value ratio requirements on an as completed basis, even though most construction loans have end financing already in place.

At December 31, 2013, we had three construction loan participations that we purchased in August 2007 that subsequently converted into permanent loans in 2012 with an aggregate outstanding balance of $5.9 million at December 31, 2013. This balance represents our 25% participation ownership in the loans, which are secured by a hotel. As of December 31, 2013, these loans were current and performing in accordance with their modified terms.

In 2012, we entered the Massachusetts construction market by originating construction loans secured by the construction of multi-family and single family properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers. In the same manner, during the latter part of 2013 we entered the New York construction market by originating construction loans secured by the construction of multi-family properties located in New York State.

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At December 31, 2013, our construction loan portfolio consisted of ten loans totaling $6.6 million, net of loans in process of $10.6 million and are comprised of six Massachusetts construction loans with an aggregate balance of $5.0 million, net of loans in process of $2.7 million, and four New York construction loans with an aggregate balance of $1.6 million, net of loans in process of $7.9 million. All ten construction loans were performing according to their terms at December 31, 2013.

The largest outstanding construction loan had a balance of $3.7 million, net of loans in process of $1.2 million, and was performing according to its terms at December 31, 2013. This loan is secured by the construction of a multi-family rental building located in Danvers, Massachusetts and will be paid-off upon completion of the construction through a conversion to a permanent loan with the Massachusetts Housing Authority.

***Consumer Loans*.** We offer personal loans, loans secured by savings accounts or certificates of deposit (share loans), and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. At December 31, 2013, our portfolio of consumer loans was $161,000, or 0.04% of total loans.

Loan Underwriting Risks

***Adjustable-Rate Loans*.** While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, the increased payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the lifetime interest rate adjustment limits.

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

In reaching a decision on whether to make a multi-family, mixed-use or non-residential real estate loan, we consider the net operating income of the property, the borrower’s expertise, credit history and profitability and the value of the

underlying property. In addition, with respect to non-residential real estate properties, we also consider the term of the lease and the quality of the tenants. An appraisal of the real estate used as collateral for the real estate loan is also obtained as part of the underwriting process. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings after subtracting all operating expenses to debt service payments) of at least 1.25x. In underwriting these loans, we take into account projected increases in interest rates in determining whether a loan meets our debt service coverage ratios at the higher interest rate under the adjustable rate mortgage. Environmental surveys and property inspections are utilized for all loans.

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

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Construction Loans. In past years, we had purchased participation interests in loans to finance the construction of multi-family, mixed-use and non-residential buildings. Due to market conditions, we discontinued purchasing participation interests in construction loans in 2009. In 2012, we commenced originating construction loans secured by multi-family or non-residential properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers.

Construction financing affords us the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does residential mortgage loans. However, construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loans outstanding at any time and by spreading the loans among multi-family, mixed-use and non-residential projects. In connection with construction loans that convert to permanent loans with us, we underwrite these loans using the same underwriting standards as our multi-family, mixed-use and non-residential real estate loans. If we do not offer permanent financing to the borrower, we minimize risks by requiring the borrower to obtain permanent financing from another financial institution.

Consumer Loans. Because the only consumer loans we offer are personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts, we do not believe these loans represent a risk of loss to the Bank.

Mortgage and Construction Loan Originations and Participations. Originations of permanent multi-family, mixed-use, and non-residential mortgage loans come from a number of sources. In the New York Region, the primary sources are from brokers and existing borrowers. Construction loans are primarily from personal contact by Bank personnel with local builders. All loans are underwritten and approved by us utilizing our underwriting policies and standards. We generally retain for our portfolio all of the loans that we originate in the New York Region.

In the Massachusetts market area, the primary source of mortgage loan originations are from personal contacts by our loan officers, referrals from existing customers and advertising. We generally retain for our portfolio all of the loans that we originate in the Massachusetts market area.

During 2013, we continued our policy of not purchasing participation interests in loans to finance the construction of multi-family, mixed-use and non-residential properties.

Commercial and Industrial (C&I) Loan Originations. We originate commercial and industrial loans from contacts made by our commercial loan officers in New York and Massachusetts. Our commercial and industrial lending

department does not utilize the services of loan brokers.

The Bank will consider granting credit to commercial and industrial businesses located within our lending area, which is defined as the Northeastern United States. The Bank will consider the credit needs of businesses located in our lending area if we can effectively service the credit and if the customer has a strong financial position.

We will consider loans to small businesses with revenues normally not to exceed $30.0 million. The small business may be one that manufactures wholesale or retail products and/or services. Generally, we will consider loans to small businesses such as: retail sales and services, such as grocery, restaurants, clothing, furniture, appliances, hardware, automotive parts, automobiles and trucks; wholesale businesses, such as automotive parts and industrial parts and equipment; manufacturing businesses, such as tool and die shops and commercial manufacturers and contractors with strong financials and well-known principals, attorneys, accountants, and medical and dental groups.

Mortgage and Construction Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. Prior to December 2012, the board granted the “Loan Committee” (which is comprised of the chief executive officer, president, chief financial officer, and chief lending officer) with loan approval authority for mortgage loans up to $2.0 million. Mortgage loans in amounts greater than $2.0 million were approved by the Loan Committee and a majority of the non-employee directors. At each monthly meeting of the board of directors, the board ratifies all commitments issued, regardless of size.

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In December 2012, the board of directors approved a revision to the approval process by granting the Loan Committee approval authority for mortgage loans up to the Bank's legal limit for loans to one borrower. Approved loans must then be reported to the board of directors at each monthly board meeting.

Commercial and Industrial Loan Approval Procedures and Authority. Our commercial and industrial lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. The Loan Committee has approval authority for commercial and industrial loans up to the Bank's legal limit for loans to one borrower. Approved loans must then be reported to the board of directors at each monthly board meeting.

***Loan Commitments*.** We issue commitments for adjustable-rate loans conditioned upon the occurrence of certain events. Commitments to originate adjustable-rate loans are legally binding agreements to lend to our customers. Generally, our adjustable-rate loan commitments expire after 60 days.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and municipal governments, deposits at the Federal Home Loan Bank of New York and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in mutual funds. While we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at December 31, 2013.

At December 31, 2013, our interest-bearing deposits, securities, and short-term investments totaled $40.0 million and consisted primarily of $26.3 million in interest earning deposits with the Federal Home Loan Bank of New York, $6.9 million in mortgage-backed securities issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $2.1 million in short-term certificates of deposits at other financial institutions, $1.6 million in collateralized mortgage obligations issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $1.6 million in Federal Home Loan Bank of New York common stock, $1.1 million in the Federal Reserve Bank of New York, and $421,000 at a financial institution. At December 31, 2013, we had no investments in callable securities.

Our investment management policy is designed to provide adequate liquidity to meet any reasonable decline in deposits and any anticipated increase in the loan portfolio through conversion of secondary reserves to cash and to provide safety of principal and interest through investment in securities under limitations and restrictions prescribed in banking regulations. Consistent with liquidity and safety requirements, our policy is designed to generate a significant amount of stable income and to provide collateral for advances and repurchase agreements. The policy is also designed to serve as a counter-cyclical balance to earnings in that the investment portfolio will absorb funds when loan demand is low and will infuse funds when loan demand is high.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

***Deposit Accounts*.** Except for certificates of deposit previously obtained through a nationwide listing service, as described below, substantially all of our depositors are residents of the States of New York and Massachusetts. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits principally consist of interest-bearing demand accounts (such as NOW and money market accounts), regular savings accounts, noninterest-bearing demand accounts (such as checking accounts) and certificates of deposit.

Although we did not utilize brokered deposits during 2012 and 2013, at December 31, 2012 and December 31, 2013, we had $981,000 and $980,000, respectively, in certificates of deposits that are fully-insured brokered deposits as defined in the FDIC call report instructions. These certificates of deposits were obtained from one of our retail depositors and then transferred into the Certificate of Deposit Account Registry Service (“CDARS”) Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Network as reciprocal deposits, which the Company considers as core deposits and not brokered deposits.

At December 31, 2012 and December 31, 2013, we had $746,000 and $9.7 million, respectively, in certificate of deposits that we obtained through the posting of our certificate of deposits interest rates through a nationwide listing service. These certificates of deposits were obtained from financial institutions throughout the country and are not considered brokered deposits.

Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, maturity matching deposit and loan products, and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and to be in the lower to middle of the market for rates on all types of deposit products.

Our deposits are typically obtained from customers residing in or working in the communities in which our branch offices are located, and we rely on our long-standing relationships with our customers and competitive interest rates to retain these deposits. In the future, as we open new branches in other states, we expect our deposits will also be obtained from those states. We may also, in the future, utilize our website to attract deposits.

Borrowings. We may utilize advances from the Federal Home Loan Bank of New York to supplement our supply of investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of a bank’s net worth or on the Federal Home Loan Bank’s assessment of the bank’s creditworthiness.

Mortgage Brokering Operations

In 2011, we initiated a program under which we acted as a residential mortgage loan broker for nationally recognized third-party mortgage originators. Under this program, our mortgage brokerage team marketed one- to four-family residential mortgage loans, collected loan applications and forwarded such documentation to the third-party mortgage originator who made all credit decisions and originated all loans. We received an agreed upon fee from the third-party mortgage originator upon the closing of the loan. We marketed these services solely through our branch network in Massachusetts. In January 2013, we discontinued this program and laid off our mortgage brokerage staff.

Investment Advisory and Financial Planning Activities

Hayden Wealth Management Group, a division of the Bank, performs a wide range of financial planning and investment advisory services based on the needs of a diversified client base including, but not limited to: wealth management based on a clients' time dimension, risk aversion/tolerance, value system and specific purposes of a portfolio; transition planning from one career to another, especially the transition to retirement; conducting risk assessment and management on issues related to various kinds of insurance covered contingencies; and providing assistance relating to the ultimate disposition of assets. In this capacity, Hayden Wealth Management Group coordinates with estate planning attorneys as needed. Investment advisory and financial planning services are offered through a networking arrangement with a registered broker-dealer and investment advisor.

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Personnel

As of December 31, 2013, we had 102 full-time employees and two part-time employees, none of whom are represented by a collective bargaining unit. We believe our relationship with our employees is good.

Legal Proceedings

On October 31, 2011 a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the "Court"), against the Company, the MHC and each of the directors of the Company and the MHC. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a "second-step" conversion of the MHC. As relief, the complaint requested, among other things, that the Company's board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company's motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell asserted claims against the MHC, as majority shareholder of the Company, for breach of fiduciary duty and for aiding and abetting the directors' alleged breach of fiduciary duty. The Company filed a motion to dismiss on February 1, 2013. Stilwell filed his opposition on March 8, 2013, and the Company filed its reply brief on March 29, 2013. The Court held a hearing on the motion on June 12, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company's directors and the MHC to proceed.

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

Subsidiaries

Northeast Community Bancorp's only subsidiary is Northeast Community Bank. The Bank has two wholly owned subsidiaries, New England Commercial Properties LLC, a New York limited liability company, and NECB Financial Services Group LLC, a New York limited liability company.

New England Commercial Properties was formed in October 2007 to facilitate the purchase or lease of real property by the Bank and to hold real estate owned acquired by the Bank through foreclosure or deed-in-lieu of foreclosure. As of December 31, 2013, New England Commercial Properties, LLC had no assets other than title to a foreclosed multi-family property located in Newark, New Jersey and a foreclosed office building located in Lawrenceville, New Jersey.

NECB Financial Services Group LLC was formed in April 2012 as a complement to the Bank's existing investment advisory and financial planning services division, Hayden Wealth Management, to sell life insurance products and fixed-rate annuities. NECB Financial Services Group LLC has not conducted any business.

REGULATION AND SUPERVISION

General

Northeast Community Bank, is a New York state-chartered savings bank and its deposit accounts are insured under the Deposit Insurance Fund (the "DIF") up to applicable legal limits. The Bank is subject to extensive regulation, examination and supervision by the New York State Department of Financial Services (the "NYDFS"), as its chartering agency and by the Federal Deposit Insurance Corporation (the "FDIC"), as its insurer of deposits. Northeast Community Bank must file reports with the NYDFS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the NYDFS and, under certain circumstances, the FDIC to evaluate Northeast Community Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the NYDFS, the FDIC or Congress, could have a material adverse impact on Northeast Community Bancorp, Northeast Community Bancorp, MHC and Northeast Community Bank and their operations.

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Northeast Community Bancorp and Northeast Community Bancorp, MHC, as savings and loan holding companies that have elected to be treated as financial holding companies, are required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Northeast Community Bancorp also is subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes to the regulation of financial institutions. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of savings and loan holding companies like Northeast Community Bancorp, MHC and Northeast Community Bancorp was transferred to the Federal Reserve Board. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as Northeast Community Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators. Many of the provisions of the Dodd-Frank Act require the issuance of regulations before their impact on operations can be fully assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden and compliance costs for Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC.

Certain of the regulatory requirements that are applicable to Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Northeast Community Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC and is qualified in its entirety by reference to the actual statutes and regulations.

Regulation of the Bank

New York State Law

The Bank derives its lending, investment, and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the NYDFS, as limited by FDIC regulations. Under these laws and regulations, banks, including the Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies), certain types of corporate equity securities, and certain other assets. The lending powers of New York State-chartered savings banks are not subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers.

The exercise by an FDIC-insured savings bank of the lending and investment powers under New York State Banking Law is limited by FDIC regulations and other federal laws and regulations. In particular, the applicable provisions of New York State Banking Law and regulations governing the investment authority and activities of an FDIC-insured state-chartered savings bank have been effectively limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the FDIC regulations issued pursuant thereto.

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With certain limited exceptions, a New York state-chartered savings bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank’s net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank’s net worth. The Bank currently complies with all applicable loans-to-one-borrower limitations.

Under New York State Banking Law, New York state-chartered stock-form savings banks may declare and pay dividends out of their net profits, unless there is an impairment of capital, but approval of the NYDFS Superintendent (the “Superintendent”) is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

New York State Banking Law gives the Superintendent authority to issue an order to a New York state-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices, and to keep prescribed books and accounts. Upon a finding by the NYDFS that any director, trustee, or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or a receiver for a savings bank under certain circumstances.

FDIC Regulations

Capital Requirements

The FDIC has adopted risk-based capital guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as a “risk-based capital ratio.” Risk-based capital ratios are determined by allocating assets and specified off-balance-sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide an institution’s capital into two tiers. The first tier (“Tier 1”) includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary (“Tier 2”) capital includes,

among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the allowance for loan losses, subject to certain limitations, and up to 45% of pre-tax net unrealized gains on equity securities with readily determinable fair market values, less required deductions. Savings banks are required to maintain a total risk-based capital ratio of at least 8%, of which at least 4% must be Tier 1 capital.

In addition, the FDIC has established regulations prescribing a minimum Tier 1 leverage capital ratio (the ratio of Tier 1 capital to adjusted average assets as specified in the regulations). These regulations provide for a minimum Tier 1 leverage capital ratio of 3% for institutions that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other institutions are required to maintain a Tier 1 leverage capital ratio of at least 4%. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Institutions experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

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As of December 31, 2013, the Bank was deemed to be well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum Tier 1 leverage capital ratio of 5%, a minimum Tier 1 risk-based capital ratio of 6%, and a minimum total risk-based capital ratio of 10%.

The regulatory capital regulations of the FDIC and other federal banking agencies provide that the agencies will take into account the exposure of an institution's capital and economic value to changes in interest rate risk in assessing capital adequacy. According to such agencies, applicable considerations include the quality of the institution's interest rate risk management process, overall financial condition, and the level of other risks at the institution for which capital is needed. Institutions with significant interest rate risk may be required to hold additional capital. The agencies have issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies' evaluation of interest rate risk in connection with capital adequacy. Institutions that engage in specified amounts of trading activity may be subject to adjustments in the calculation of the risk-based capital requirement to assure sufficient additional capital to support market risk.

Basel Committee on Banking Supervision

On July 9, 2013, the federal banking regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The final rule applies to all depository institutions, top-tier banking holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies.

The rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property.

The rule also includes changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

The new capital requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk-weights (from 0% to up to 600%) for equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule becomes effective on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019.

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It is management's belief that, as of December 31, 2013, the Company and the Bank would have met or exceeded all capital adequacy requirements under Basel III to be considered well capitalized on a fully phased-in basis if such requirements were currently effective.

Standards for Safety and Soundness

Federal law requires each federal banking agency to prescribe, for the depository institutions under its jurisdiction, standards that relate to, among other things, internal controls; information and audit systems; loan documentation; credit underwriting; the monitoring of interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to provide it with an acceptable plan to achieve compliance with the standard, as required by the Federal Deposit Insurance Act, as amended, (the "FDI Act"). The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Real Estate Lending Standards

The FDIC and the other federal banking agencies have adopted regulations that prescribe standards for extensions of credit that (i) are secured by real estate, or (ii) are made for the purpose of financing construction or improvements on real estate. The FDIC regulations require each institution to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices, and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying FDIC Guidelines, which include loan-to-value limitations for the different types of real estate loans. Institutions are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The Guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

In 2006, the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "CRE Guidance"). The CRE Guidance, which addresses land development, construction, and certain multi-family loans, as well as commercial real estate loans, does not establish specific lending limits but, rather, reinforces and enhances existing banking regulations and guidelines for such lending and portfolio management.

Dividend Limitations

The FDIC has authority to use its enforcement powers to prohibit a savings bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law prohibits the payment of dividends that will result in the institution failing to meet applicable capital requirements on a pro forma basis. The Bank is also subject to dividend declaration restrictions imposed by New York State law as previously discussed under "New York State Law."

Prompt Corrective Regulatory Action

Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For such purposes, the law establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The FDIC has adopted regulations to implement prompt corrective action. Among other things, the regulations define the relevant capital measures for the five capital categories. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and generally a leverage capital ratio of 4% or greater. An institution is deemed to be "undercapitalized" if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or generally a leverage capital ratio of less than 4%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%. An institution is deemed to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

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“Undercapitalized” institutions are subject to growth, capital distribution (including dividend), and other limitations, and are required to submit a capital restoration plan. An institution’s compliance with such plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the bank’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” Significantly undercapitalized institutions are subject to one or more additional restrictions including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company.

Beginning 60 days after becoming “critically undercapitalized,” critically undercapitalized institutions also may not make any payment of principal or interest on certain subordinated debt, or extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver is required for a critically undercapitalized institution within 270 days after it obtains such status.

Enforcement

The FDIC has extensive enforcement authority over insured banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders, and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

The FDIC has authority under federal law to appoint a conservator or receiver for an insured institution under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured institution if that institution was critically undercapitalized on average during the calendar quarter beginning 270 days after the date on which the institution became critically undercapitalized. For this purpose, “critically undercapitalized” means having a ratio of tangible equity to total assets of less than 2%. Please see “Prompt Corrective Regulatory Action” earlier in this report.

The FDIC may also appoint a conservator or receiver for an insured institution on the basis of the institution’s financial condition or upon the occurrence of certain events, including (i) insolvency (whereby the assets of the bank are less than its liabilities to depositors and others); (ii) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (iii) existence of an unsafe or unsound condition to transact business; (iv) likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and (v) insufficient capital, or the incurrence or likely incurrence of losses that will deplete substantially all of the institution’s capital with no reasonable prospect of replenishment of capital without federal assistance.

Insurance of Deposit Accounts

The Bank's deposits are insured up to applicable limits, which have been increased to $250,000 per depositor, by the Deposit Insurance Fund of the FDIC.

Under the FDIC's existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. Effective April 1, 2009, assessment rates ranged from seven to 77.5 basis points. On February 7, 2011, the FDIC issued final rules, effective April 1, 2011, implementing changes to the assessment rules resulting from the Dodd-Frank Act. Initially, the base assessment rates will range from two and one half to 45 basis points. The rate schedules will automatically adjust in the future when the Deposit Insurance Fund reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

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The FDIC imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier 1 capital, as of June 30, 2009 (capped at ten basis points of an institution's deposit assessment base), in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30, 2009. The FDIC provided for similar assessments during the final two quarters of 2009, if deemed necessary. However, in lieu of further special assessments, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which include an assumed annual assessment base increase of 5%, were recorded as a prepaid expense asset as of December 31, 2009. As of June 30, 2010, and each quarter thereafter, a charge to earnings was recorded for each regular assessment with an offsetting credit to the prepaid asset. The FDIC refunded the unused prepaid FDIC assessment of $361,000 to the Bank in June 2013.

Due to difficult economic conditions, deposit insurance per account owner was raised to $250,000. That change was made permanent by the Dodd-Frank Act. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, non-interest bearing transaction accounts (defined to include IOLTA and certain NOW accounts) would receive unlimited insurance coverage until December 31, 2010 and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and June 30, 2010 would be guaranteed by the FDIC through June 30, 2012, or in some cases, December 31, 2012. The Bank participated in the unlimited non-interest bearing transaction account coverage and the Bank, Northeast Community Bancorp and Northeast Community Bancorp, MHC opted not to participate in the unsecured debt guarantee program. The Dodd-Frank Act extended the unlimited coverage for certain non-interest bearing transaction accounts through December 31, 2012.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2013 averaged 1.55 basis points of assessable deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Transactions with Affiliates and Loans to Insiders

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W promulgated thereunder. An affiliate of a savings bank is any company or entity that controls, is controlled by, or is under common control with, the institution, other than a subsidiary. Generally, an institution's subsidiaries are not treated as affiliates unless they are engaged in activities as principal that are not permissible for national banks. In a holding company context, at a minimum, the parent holding company of an institution, and any companies that are controlled by such parent holding company, are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the institution's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term "covered transaction" includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate; the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees or acceptances on letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same as, or at least as favorable to, the institution or its subsidiary as similar transactions with non-affiliates.

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The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption for loans by an institution to its executive officers and directors in compliance with federal banking laws. Section 22(h) of the Federal Reserve Act, and FRB Regulation O adopted thereunder, governs loans by a savings bank or commercial bank to directors, executive officers, and principal shareholders. Under Section 22(h), loans to directors, executive officers, and shareholders who control, directly or indirectly, 10% or more of voting securities of an institution, and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and shareholders who control 10% or more of the voting securities of an institution, and their respective related interests, unless such loan is approved in advance by a majority of the board of the institution's directors. Any "interested" director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus or any loans aggregating over $500,000. Further, pursuant to Section 22(h), loans to directors, executive officers, and principal shareholders must be made on terms substantially the same as those offered in comparable transactions to other persons. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to executive officers over other employees. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

Community Reinvestment Act

Federal Regulation

Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and further requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's Community Reinvestment Act rating has been an "Outstanding" for the past 18 years.

New York State Regulation

The Bank is also subject to provisions of the New York State Banking Law that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community (the "NYCRA"). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the

NYDFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The NYDFS has not yet conducted an examination of the Bank to determine the Bank's latest NYCRA rating subsequent to the Bank's conversion to a New York State charter in June 2012.

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Holding Company Regulation

General. Northeast Community Bancorp and Northeast Community Bancorp, MHC are savings and loan holding companies within the meaning of federal law. As such, they are subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. In addition, the Federal Reserve Board has enforcement authority over Northeast Community Bancorp and Northeast Community Bancorp, MHC and their non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Northeast Community Bank. In November 2012, Northeast Community Bancorp and Northeast Community Bancorp, MHC provided notice to the Federal Reserve Board of their election to be treated as financial holding companies.

Financial Holding Companies. Savings and loan holding companies that elect to be treated as financial holding companies may also engage in a broad range of activities. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for savings and loan holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The Federal Reserve Board and the Department of the Treasury are also authorized to permit additional activities for financial holding companies if the activities are “financial in nature” or “incidental” to financial activities. The Dodd-Frank Act specifies that a savings and loan holding company may only engage in financial holding company activities if it meets the qualitative criteria for a bank holding company to engage in such activities. A savings and loan holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed, and has at least a “satisfactory” Community Reinvestment Act rating. A financial holding company must provide notice to the Federal Reserve Board within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible.

In November 2012 Northeast Community Bancorp and Northeast Community Bancorp, MHC elected to be treated as financial holding companies and such election was effective on December 1, 2012.

Restrictions Applicable to Mutual Holding Companies. According to federal law and Federal Reserve Board regulations, a mutual holding company, such as Northeast Community Bancorp, MHC, may generally engage in the following activities: (1) investing in the stock of a bank; (2) acquiring a mutual savings bank through the merger of such savings bank into a bank subsidiary of such holding company or an interim bank subsidiary of such holding company; (3) merging with or acquiring another holding company, one of whose subsidiaries is a bank; and (4) any activity approved by the Federal Reserve Board for a bank holding company or financial holding company or previously approved by Federal Reserve Board for multiple savings and loan holding companies. In addition, mutual holding companies may engage in activities permitted for financial holding companies. Financial holding companies may engage in a broad array of financial service activities including insurance and securities.

Federal law prohibits a savings and loan holding company, including a federal mutual holding company, from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings association, or its holding company, without prior written approval of the Federal Reserve Board. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law, or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, except: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (2) the acquisition of a savings association in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

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Stock Holding Company Subsidiary Regulation. The Federal Reserve Board has adopted regulations governing the two-tier mutual holding company form of organization and subsidiary stock holding companies that are controlled by mutual holding companies. Northeast Community Bancorp is the stock holding company subsidiary of Northeast Community Bancorp, MHC. Northeast Community Bancorp is permitted to engage in activities that are permitted for Northeast Community Bancorp, MHC, subject to the same restrictions and conditions.

Capital Requirements. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. However, as discussed more fully above under the section entitled "Basel Committee on Banking Supervision," on July 9, 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule becomes effective on January 1, 2015. The Dodd-Frank Act also requires the Federal Reserve Board to promulgate regulations implementing the "source of strength" policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Source of Strength. The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations implementing the "source of strength" policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital and other support to their subsidiary institutions in times of financial distress.

Dividends and Stock Repurchases. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is not consistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. Moreover, a company should inform the Federal Reserve Board reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid. The policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Waivers of Dividends by Northeast Community Bancorp, MHC. The Federal Reserve Board has adopted an interim final rule which requires the MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the interim final rule also requires that the MHC obtain the approval of a majority of

the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. The Federal Reserve Board's interim final rule regarding dividend waiver requests is subject to comment and there can be no assurances as to the timing of changes to the interim final rule, if any, the form of the final dividend waiver regulations or the effect of such regulations on the MHC's ability to waive dividends.

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On December 12, 2013, the MHC received notice from the Federal Reserve Board that it did not object to the waiver of dividends to be paid by the Company in the twelve months following MHC member approval of the dividend waiver, which occurred on November 12, 2013.

Conversion of Northeast Community Bancorp, MHC to Stock Form. Federal Reserve Board regulations permit Northeast Community Bancorp, MHC to convert from the mutual form of organization to the capital stock form of organization. There can be no assurance when, if ever, a conversion transaction will occur, and the board of directors has no current intention or plan to undertake a conversion transaction. In a conversion transaction, a new holding company would be formed as the successor to Northeast Community Bancorp, Northeast Community Bancorp, MHC's corporate existence would end, and certain depositors of Northeast Community Bank would receive the right to subscribe for additional shares of the new holding company. In a conversion transaction, each share of common stock held by stockholders other than Northeast Community Bancorp, MHC would be automatically converted into a number of shares of common stock of the new holding company based on an exchange ratio designed to ensure that stockholders other than Northeast Community Bancorp, MHC own the same percentage of common stock in the new holding company as they owned in Northeast Community Bancorp immediately before conversion. The total number of shares held by stockholders other than Northeast Community Bancorp, MHC after a conversion transaction would be increased by any purchases by such stockholders in the stock offering conducted as part of the conversion transaction.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Future Legislation. Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of the Company and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries. With the recent enactments of the Dodd-Frank Act, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Board of Directors annually elects the executive officers of Northeast Community Bancorp, MHC, Northeast Community Bancorp and Northeast Community Bank, who serve at the Board's discretion. Our executive officers are:

Name	**Position**
Kenneth A. Martinek	Chief Executive Officer of the MHC, the Company and the Bank
Jose Collazo	President and Chief Operating Officer of the MHC, the Company and the Bank
Donald S. Hom	Executive Vice President, Chief Financial Officer and Treasurer of the MHC, the Company and the Bank

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ITEM 1A. RISK FACTORS

Our non-performing assets could expose us to increased risk of loss, which may negatively affect our earnings.

Our non-performing assets have remained at elevated levels over the past few years as a result of the economic recession. At December 31, 2013, we had total non-performing assets of $8.7 million, or 1.9% of total assets, a $423,000 increase from December 31, 2012 and a $12.4 million decrease from December 31, 2011. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or investments in real estate owned. We must reserve for probable losses, which are established through a current period charge to income in the provision for loan losses, and from time to time, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Northeast Community Bank. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly. At December 31, 2013, our allowance for loan losses amounted to 1.1% of total loans outstanding and 86.1% of nonperforming loans.

Our emphasis on multi-family residential, mixed-use and non-residential real estate lending and our recent expansion into commercial and industrial lending, construction loans, and participation in construction loans could expose us to increased lending risks.

Our primary business strategy centers on continuing our emphasis on multi-family, mixed-use, and non-residential real estate loans. At December 31, 2013, $321.4 million, or 86.6%, of our loan portfolio consisted of multi-family residential, mixed-use and non-residential real estate loans. As a result, our credit risk profile is generally higher than traditional thrift institutions that have higher concentrations of one- to four-family residential loans.

Loans secured by multi-family, mixed-use and non-residential real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property’s net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit-related losses.

As with loans secured by multi-family, mixed-use and non-residential real estate, commercial and industrial loans tend to be of higher risk than one- to four-family residential mortgage loans. We seek to minimize the risks involved in commercial and industrial lending by underwriting such loans on the basis of the cash flows produced by the business; by requiring that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and by requiring personal guarantees, whenever possible. However, the capacity of a borrower to repay a commercial and industrial loan is substantially dependent on the degree to which his or her business is successful. In addition, the collateral underlying such loans may depreciate over time, may not be conducive to appraisal, or may fluctuate in value, based upon the business' results. At December 31, 2013, $31.3 million, or 8.4%, of our loan portfolio consisted of commercial and industrial loans.

Our construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have sought to minimize these risks by limiting the amount of construction loans outstanding at any time, by limiting our construction loans to borrowers who have in effect pre-sold their construction project, and by limiting our construction loans to multi-family and single family projects. At December 31, 2013, $6.6 million, or 1.8%, of our loan portfolio consisted of construction loans.

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Our participation interests in construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. We have eliminated the risks involved in purchased participation construction loans by no longer engaging in these transactions.

At December 31, 2013, we had three construction loan participations that we purchased in August 2007 that subsequently converted into permanent loans in 2012 with an aggregate outstanding balance of $5.9 million at December 31, 2013. This balance represents our 25% participation ownership in the loans, which are secured by a hotel. We currently do not buy participation interests in construction loans.

Our allowance for loan losses may be inadequate, which could hurt our earnings.

When borrowers default and do not repay the loans that we make to them, we may lose money. The allowance for loan losses is the amount estimated by management as necessary to cover probable losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. If our estimates and judgments regarding such matters prove to be incorrect, our allowance for loan losses might not be sufficient, and additional loan loss provisions might need to be made. Depending on the amount of such loan loss provisions, the adverse impact on our earnings could be material. Our allowance for loan losses amounted to 1.1% of total loans outstanding and 86.1% of nonperforming loans at December 31, 2013. Our allowance for loan losses at December 31, 2013 may not be sufficient to cover loan losses. A large loss or series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

In addition, bank regulators may require us to make a provision for loan losses or otherwise recognize further loan charge-offs following their periodic review of our loan portfolio, our underwriting procedures, and our loan loss allowance. Any increase in our allowance for loan losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on our financial condition and results of operations. Please see "*Allowance for Loan Losses*" under "*Critical Accounting Policies*" in Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," for a discussion of the procedures we follow in establishing our loan loss allowance.

Changes in interest rates may have a negative impact on earnings and asset values.

Our net interest income is the interest we earn on loans and investment less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the "yield curve"—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk Management*."

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Negative developments in the financial industry, the domestic and international credit markets, and the economy in general pose significant challenges for our industry and us and could adversely affect our business, financial condition and results of operations.

Negative developments that began in the latter half of 2007 and that have continued since then in the global credit and securitization markets have resulted in unprecedented volatility and disruption in the financial markets, a general economic downturn and a tepid economic recovery, both nationally and in our primary market areas. As a result, commercial as well as consumer loan portfolio performances deteriorated at many institutions and have not fully recovered, and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. As a result, we may face the following risks:

• economic conditions that negatively affect housing prices and the job market may cause the credit quality of our loan portfolios to deteriorate;

• market developments that affect consumer confidence may cause adverse changes in payment patterns by our customers, causing increases in delinquencies and default rates on loans and other credit facilities;

• the processes that we use to estimate our allowance for loan losses and reserves may no longer be reliable because they rely on judgments, such as forecasts of economic conditions, that may no longer be capable of accurate estimation;

• the value of our securities portfolio may decline; and

• we face increased regulation of our industry, and the costs of compliance with such regulation may increase.

These conditions or similar ones may continue to persist or worsen, causing us to experience continuing or increased adverse effects on our business, financial condition, results of operations and the price of our common stock.

Strong competition within our primary market area and our lending territory could hurt our profits and slow growth.

We face intense competition both in making loans in our lending territory and attracting deposits in our primary market area. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. As of June 30, 2013, the most recent date for which information is available from the FDIC, we held approximately 0.01% of the deposits in New York County, New York, approximately 0.56% and 0.06% of the deposits in Bronx and Westchester Counties, New York, respectively, and 0.20%, 0.62%, 0.11% and 0.04% of the deposits in Essex, Plymouth, Norfolk and Middlesex Counties, Massachusetts, respectively. Competition also makes it more difficult to hire and retain experienced employees. Some of the banks with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area and our lending territory.

The market price of our common stock may be materially adversely affected by market volatility.

Many publicly traded financial services companies have recently experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance or prospects of such companies. We may experience market fluctuations that are not directly related to our operating performance but are influenced by the market’s perception of the state of the financial services industry in general and, in particular, the market’s assessment of general credit quality conditions, including default and foreclosure rates in the industry.

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Increased and/or special FDIC assessments will hurt our earnings.

The recent economic recession has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $205,000. In lieu of imposing an additional special assessment post-2009, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $1.5 million. Additional increases in the base assessment rate or additional special assessments would negatively impact our earnings.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the New York State Department of Financial Services and by the Federal Deposit Insurance Corporation. Northeast Community Bancorp, MHC and Northeast Community Bancorp are subject to regulation and supervision by the Federal Reserve Board. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of Northeast Community Bank rather than for holders of Northeast Community Bancorp common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

New capital rules that were recently issued generally require insured depository institutions and their holding companies to hold more capital. The impact of the new rules on our financial condition and operations is uncertain but could be materially adverse.

In July 2013, the Federal Reserve adopted a final rule for the Basel III capital framework. These rules substantially amend the regulatory risk-based capital rules applicable to us. The rules phase in over time beginning in 2015 and will become fully effective in 2019. The rules apply to the Company as well as to the Bank. Beginning in 2015, our minimum capital requirements will be (i) a common Tier 1 equity ratio of 4.5%, (ii) a Tier 1 capital (common Tier 1 capital plus Additional Tier 1 capital) of 6% (up from 4%) and (iii) a total capital ratio of 8% (the current requirement). Our leverage ratio requirement will remain at the 4% level now required. Beginning in 2016, a capital conservation buffer will phase in over three years, ultimately resulting in a requirement of 2.5% on top of the common Tier 1 and total capital requirements, resulting in a require common Tier 1 equity ratio of 7%, a Tier 1 ratio of 8.5%, and a total capital ratio of 10.5%. Failure to satisfy any of these three capital requirements will result in limits on

paying dividends, engaging in share repurchases and paying discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

Regulatory reform legislation may have a material effect on the value of our stock.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") was passed, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

• changes to regulatory capital requirements;

• creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the Consumer Financial Protection Bureau, which develops and enforces rules for bank and non-bank providers of consumer financial products);

• potential limitations on federal preemption;

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• changes to deposit insurance assessments;

• regulation of debit interchange fees we earn;

• changes in retail banking regulations, including potential limitations on certain fees we may charge; and

• changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, will require regulations to be promulgated by various federal agencies to be implemented, some but not all of which have been proposed or finalized by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until after implementation. Certain changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our common stock. See *"Regulation and Supervision – Federal Banking Regulation – Capital Requirements"* for a discussion of regulatory capital requirements.

Northeast Community Bancorp, MHC's majority control of our common stock will enable it to exercise voting control over most matters put to a vote of stockholders and will prevent stockholders from forcing a sale or a second-step conversion transaction you may like.

The MHC owns a majority of Northeast Community Bancorp's common stock and, through its board of directors, will be able to exercise voting control over most matters put to a vote of stockholders. The same directors and officers who manage Northeast Community Bancorp and Northeast Community Bank also manage the MHC. As a federally chartered mutual holding company, the board of directors of the MHC must ensure that the interests of depositors of Northeast Community Bank are represented and considered in matters put to a vote of stockholders of Northeast

Community Bancorp. Therefore, the votes cast by the MHC may not be in your personal best interests as a stockholder. For example, the MHC may exercise its voting control to defeat a stockholder nominee for election to the board of directors of Northeast Community Bancorp. In addition, stockholders will not be able to force a merger or second-step conversion transaction without the consent of the MHC. Some stockholders may desire a sale or merger transaction, since stockholders typically receive a premium for their shares, or a second-step conversion transaction, since fully converted institutions tend to trade at higher multiples than mutual holding companies.

The amount of dividends we pay on our common stock, if any, may be limited by the ability of Northeast Community Bancorp, MHC to waive receipt of dividends.

The MHC owns a majority of the Company's outstanding stock. As a result, when and if the Company pays dividends to its shareholders, it also is required to pay dividends to the MHC unless the MHC is permitted by its federal regulator to waive the receipt of dividends. Historically, the MHC's federal regulator has permitted the MHC to waive its right to dividends declared by the Company on the shares that it owns.

The Federal Reserve Board, as successor regulatory agency to the Office of Thrift Supervision for the MHC, has adopted an interim final rule which requires the MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the interim final rule also requires that the MHC obtain the approval of a majority of the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. The Federal Reserve Board's interim final rule regarding dividend waiver requests is subject to comment and there can be no assurances as to the timing of changes to the interim final rule, if any, the form of the final dividend waiver regulations or the effect of such regulations on the MHC's ability to waive dividends.

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The MHC has received the approval of the Federal Reserve Board to waive dividends paid by the Company during the 12 months following November 12, 2013. It is expected that the MHC will continue to waive future dividends, except to the extent dividends are needed to fund the MHC's continuing operations, and subject to the ability of the MHC to obtain regulatory approval in the future of its requests to waive dividends.

While the MHC is grandfathered for purposes of the Federal Reserve Board dividend waiver regulations, we cannot assure that the Federal Reserve Board will grant dividend waiver requests in the future and, if granted, there can be no assurance as to the conditions, if any, the Federal Reserve Board will place on future dividend waiver requests. The denial of a dividend waiver request or the imposition of burdensome conditions on an approval of a waiver request may significantly limit the amount of dividends the Company pays in the future, if any.

The Federal Reserve Board policy on remutualization transactions could prohibit acquisition of Northeast Community Bancorp, which may adversely affect our stock price.

Current Federal Reserve Board regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. However, Northeast Community Bancorp's former regulator, the Office of Thrift Supervision, had adopted a policy statement indicating that it viewed remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. The Federal Reserve Board has not adopted a similar policy statement or issued on the matter and future Federal Reserve Board regulation may negatively affect Northeast Community Bancorp. Under certain circumstances, the Federal Reserve Board may give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Federal Reserve Board's concerns are not warranted in the particular case. Should the Federal Reserve Board prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected.

We are subject to a variety of operational risks, environmental, legal and compliance risks, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Actual or alleged conduct by the Bank can also result in negative public opinion about our other businesses.

If personal, non-public, confidential or proprietary information of customers in our possession were to be misappropriated, mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, erroneously providing such information to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or the interception or inappropriate acquisition of such information by third parties.

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Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in our diminished ability to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition or results of operations, perhaps materially.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We conduct our business through our main office, a main office annex, eight other full-service branch offices, two loan production offices, and our investment advisory and financial planning services office located in Westport, Connecticut. The following table sets forth certain information relating to these facilities as of December 31, 2013.

Location	Year Opened	Date of Lease Expiration	Owned/ Leased	Net Book Value
	(Dollars in thousands)			
Corporate Headquarters and Main Office Annex:				
325 Hamilton Avenue White Plains, New York 10601	1994	N/A	Owned	$935
55 Church Street White Plains, New York 10601	2012	3/31/2017	Leased	-
Branch Offices and Loan Production Office:				
1470 First Avenue New York, NY 10021 (1)	2006	7/30/2014	Leased	-
590 East 187th Street Bronx, New York 10458	1972	N/A	Owned	434
242 West 23rd Street New York, NY 10011 (2)	1996	N/A	Owned/Leased	721
1751 Second Avenue New York, NY 10128	1978	9/30/2015	Leased	18
87 Elm Street Danvers, MA 01923	2009	N/A	Owned	1,479
8 No. Park Avenue Plymouth, MA 02360	2009	N/A	Owned	1,727
35 Edgell Road Framingham, MA 01701	2012	N/A	Owned	2,243
66 Elm Street Danvers, MA 01923 (3)	2011	N/A	Owned	959
281 Quincy Avenue Quincy, MA 02169	2012	N/A	Owned	2,132

Other Properties:				
1353-55 First Avenue New York, NY 10021 (4)	1946	2109	Leased	-
830 Post Road East Westport, Connecticut 06880	2007	7/31/2015	Leased	-

(1) The Company has temporarily relocated its branch office at 1353-55 First Avenue to this property due to the sale and renovation of the building located at 1353-55 First Avenue. See footnote 4 below.

(2) This property is owned by us, but is subject to a 99 year land lease, the term of which expires in 2084.

(3) Loan production office.

(4) In June 2007, the Company sold this building and temporarily relocated its branch office located at 1353-55 First Avenue to 1470 First Avenue, New York, New York, while 1353-55 First Avenue is being renovated. On June 30, 2007, the Bank entered into a 99 year lease agreement for office space on the first floor of the building at 1353-55 First Avenue so that the Bank may continue to operate a branch office at this location after the building has been renovated. The lease will commence upon completion of construction at 1353-55 First Avenue. Construction on the 1353-1355 property has begun with a scheduled completion date of late 2014.

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ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

On October 31, 2011 a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the “Court”), against the Company, the MHC and each of the directors of the Company and the MHC. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a “second-step” conversion of the MHC. As relief, the complaint requested, among other things, that the Company’s board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company’s motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell asserted claims against the MHC, as majority shareholder of the Company, for breach of fiduciary duty and for aiding and abetting the directors’ alleged breach of fiduciary duty. The Company, filed a motion to dismiss on February 1, 2013. Stilwell filed his opposition on March 8, 2013, and the Company filed its reply brief on March 29, 2013. The Court held a hearing on the motion on June 12, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company’s directors and the MHC to proceed.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is listed on the Nasdaq Global Market ("NASDAQ") under the trading symbol "NECB." The following table sets forth the high and low sales prices of the common stock, as reported by NASDAQ, and the dividends declared by the Company during each quarter of the two most recent fiscal years. See Item 1, *"Business—Regulation and Supervision—Regulation of Federal Savings Institutions—Limitation on Capital Distributions"* and Note 2 in the Notes to the Consolidated Financial Statements for more information relating to restrictions on dividends.

	Dividends	High	Low
2013:			
First Quarter	$ 0.03	$5.60	$5.25
Second Quarter	0.03	6.79	5.40
Third Quarter	0.03	7.00	6.15
Fourth Quarter	0.03	8.00	7.00
2012:			
First Quarter	$ 0.03	$7.29	$5.49
Second Quarter	0.03	6.33	5.09
Third Quarter	—	5.61	5.00
Fourth Quarter	0.03	5.64	5.01

Northeast Community Bancorp, MHC, the Company's majority stockholder, has waived receipt of all dividends declared by the Company. During 2013, the aggregate amount of dividends waived was $873,000. On a cumulative basis, $5,237,000 of such dividends have been waived through December 31, 2013.

As of February 28, 2014, there were approximately 259 holders of record of the Company's common stock.

Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchases during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31.	—	—	—	—
November 1 to November 30.	—	—	—	—
December 1 to December 31.	77,800	$ 7.40	77,800	190,750
Total	77,800	$ 7.40	77,800	190,750

On November 26, 2013, the Company announced that its Board of Directors approved the repurchase for up to 268,550 shares of the Company’s outstanding common stock held by persons other than the MHC.

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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share data)				
Financial Condition Data:					
Total assets	$458,225	$444,224	$489,289	$466,008	$527,276
Cash and cash equivalents	31,531	49,242	82,583	44,453	88,718
Securities held to maturity	8,444	11,987	16,099	19,858	11,845
Securities available for sale	113	129	149	162	176
Loans receivable, net	367,825	333,787	350,894	364,798	386,266
Bank owned life insurance	20,490	19,852	16,736	16,145	10,522
Deposits	325,209	318,120	353,636	326,830	379,518
Federal Home Loan Bank advances	21,000	15,000	20,000	25,000	35,000
Total stockholders' equity	104,168	103,849	107,065	108,139	107,448
Operating Data:					
Interest income	$18,552	$20,028	$22,151	$24,642	$24,373
Interest expense	3,192	3,763	5,177	8,435	10,092
Net interest income	15,360	16,265	16,974	16,207	14,281
Provision for loan losses	(554)	5,623	1,113	3,487	7,314
Net interest income after provision for loan losses	15,914	10,642	15,861	12,720	6,967
Gain (loss) on sale of premises, equipment and deposits deposits	(1)	(9)	10	1,924	—
Other noninterest income	1,990	2,588	1,882	1,718	1,498
Noninterest expenses	16,366	18,036	14,201	13,590	13,893
Income (loss) before provision (benefit) for income taxes taxes	1,537	(4,815)	3,552	2,772	(5,428)
Income tax (benefit) provision	400	(2,301)	1,197	904	(2,812)
Net income (loss)	$1,137	$(2,514)	$2,355	$1,868	$(2,616)
Net income (loss) per share – basic and diluted	$0.09	$(0.20)	$0.19	$0.15	$(0.20)
Dividends declared per share	$0.12	$0.09	$0.12	$0.12	$0.12

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	At or For the Year Ended December 31,				
	2013	2012	2011	2010	2009
Performance Ratios:					
Return on average assets	0.26 %	(0.54)%	0.51 %	0.37 %	(0.54)
Return on average equity	1.08	(2.35)	2.18	1.72	(2.37)
Interest rate spread (1)	3.69	3.50	3.53	2.96	2.49
Net interest margin (2)	3.94	3.76	3.89	3.39	3.08
Noninterest expense to average assets	3.76	3.85	3.07	2.67	2.86
Efficiency ratio (3)	94.33	95.71	75.27	68.47	88.05
Average interest-earning assets to average interest-bearing liabilities	130.27	129.46	130.26	124.48	127.33
Average equity to average assets	24.07	22.81	23.37	21.30	22.77
Capital Ratios - Bank:					
Tangible capital	18.05	18.39	18.02	18.41	16.01
Core capital	18.05	18.39	18.02	18.41	16.01
Total risk-based capital	24.17	25.38	31.30	29.84	27.70
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	1.08	1.38	2.07	2.06	1.72
Allowance for loan losses as a percent of non-performing loans	86.05	117.41	36.19	35.07	33.41
Net charge-offs to average outstanding loans during the period	0.03	2.37	0.37	0.67	0.62
Non-performing loans as a percent of total loans	1.26	1.17	5.72	5.87	5.14
Other Data:					
Number of:					
Real estate loans outstanding	495	457	449	468	497
Deposit accounts	11,304	12,028	12,170	13,042	15,781
Offices (4)	13	13	10	9	10

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

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

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

(4) At December 31, 2013, includes our main office, a main office annex, our eight other full-service branch office, our future First Avenue, New York office, our loan production office, our investment advisory service office in Westport, Connecticut.

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

Overview

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

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

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Balance Sheet Analysis

Overview. Total assets at December 31, 2013 increased by $14.0 million, or 3.2%, to $458.2 million from total assets of $444.2 million at December 31, 2012. The increase was primarily due to increases of $34.0 million in loans receivable, net, $1.7 million in certificates of deposits at other financial institutions, $638,000 in bank owned life insurance, $291,000 in accrued interest receivable, and $239,000 in Federal Home Loan Bank stock, offset by decreases of $17.7 million in cash and cash equivalents, $3.5 million in investment securities held-to-maturity, $664,000 in premises and equipment, $334,000 in goodwill, $333,000 in other assets, and $286,000 in real estate owned.

The increase in total assets was funded by increases of $7.1 million in deposits, $6.0 million in Federal Home Loan Bank advances, $471,000 in advance payments by borrowers for taxes and insurance, and $122,000 in accounts payable and accrued expenses. As of December 31, 2013, the Company had stockholders equity of $104.2 million, or 22.7% of assets on a consolidated basis,.

In 2010, we proactively reduced mortgage origination levels for mixed-use and non-residential real estate loans, based on our unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment. During the second half of 2011 and into 2012 and 2013, we began increasing our origination of loans secured by real-estate. In 2012, we commenced the origination of construction loans secured by multi-family and non-residential properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate real estate loans secured by multi-family residential real estate, mixed-use real estate and non-residential real estate. To a much lesser extent, we originate commercial and industrial and consumer loans. At December 31, 2013, loans receivable, net, totaled $367.8 million, an increase of $34.0 million, or 10.2%, from total loans receivable, net, of $333.8 million at December 31, 2012.

The largest segment of our real estate loans is multi-family residential loans. As of December 31, 2013, these loans totaled $188.9 million, or 50.9% of our total loan portfolio, compared to $178.6 million, or 52.9% of our total loan portfolio at December 31, 2012. As of December 31, 2013, mixed-use loans totaled $50.5 million, or 13.6% of our total loan portfolio, compared to $41.9 million, or 12.4% of our total loan portfolio at December 31, 2012. Non-residential real estate loans totaled $82.0 million, or 22.1% of our total loan portfolio at December 31, 2013, compared to $82.3 million, or 24.4% of our total loan portfolio at December 31, 2012. At December 31, 2013 and 2012, one- to four-family residential real estate loans totaled $11.8 million and $7.8 million, or 3.2% and 2.3% of our total loan portfolio, respectively.

Our originated construction loan portfolio totaled $6.6 million, net of loans in process of $10.6 million, or 1.8% of our loan portfolio at December 31, 2013 compared to $841,000, net of loans in process of $5.2 million, or 0.3% of our total loan portfolio at December 31, 2012. The increase in construction loans was due to our expansion in the Massachusetts construction market through the origination of construction loans secured by multi-family and single family properties. In addition, in the latter part of 2013 we entered the New York construction market through the origination of construction loans secured by multi-family properties located in New York State.

At December 31, 2013, the six Massachusetts construction loans had an aggregate balance of $5.0 million, net of loans in process of $2.7 million, and the four New York construction loans had an aggregate balance of $1.6 million, net of loans in process of $7.9 million. All ten construction loans were performing according to their terms at December 31, 2013.

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The largest outstanding construction loan had a balance of $3.7 million, net of loans in process of $1.2 million, and was performing according to its terms at December 31, 2013. This loan is secured by a condominium building located in Danvers, Massachusetts and will be paid-off upon completion of the construction through a conversion to a permanent loan to be purchased by the Massachusetts Housing Authority.

At December 31, 2013, our commercial and industrial loan portfolio totaled $51.6 million in committed loans, with $31.3 million drawn against such commitments, compared to $48.7 million in committed loans, with $26.3 million drawn against such commitments at December 31, 2012.

We also originate several types of consumer loans consisting of personal consumer loans, loans secured by savings accounts or certificates of deposit (share loans), and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. Consumer loans totaled $161,000 and represented 0.04% of total loans at December 31, 2013 compared to $77,000, or 0.02%, of total loans at December 31, 2012.

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

	At December 31,							
	2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real estate:								
Residential Real Estate:								
One- to four-family	$11,752	3.17 %	$7,761	2.30 %	$627	0.18 %	$211	0.06 %
Multi-family(1)	188,923	50.89	178,644	52.88	189,253	52.93	190,042	51.15
Mixed-use(1)	50,467	13.60	41,895	12.40	51,229	14.33	55,244	14.87
Total residential real estate loans	251,142	67.66	228,300	67.58	241,109	67.43	245,497	66.08
Non-residential real estate (1)	81,985	22.09	82,312	24.37	83,602	23.38	100,925	27.16
Total real estate	333,127	89.75	310,612	91.95	324,711	90.81	346,422	93.24
Construction	6,568	1.77	841	0.25	9,065	2.54	12,913	3.48
Commercial and industrial	31,345	8.44	26,274	7.78	23,725	6.64	12,140	3.27
Consumer:								
Overdraft lines of credit	32	0.01	34	0.01	44	0.01	48	0.01
Passbook	11	—	28	0.01	24	0.01	15	—
Consumer	118	0.03	15	—	—	—	—	—
Total consumer	161	0.04	77	0.02	68	0.02	63	0.01
Total loans	371,201	100.00%	337,804	100.00%	357,569	100.00%	371,538	100.00%
Net deferred loan costs	639		629		722		907	
Allowance for losses	(4,015)		(4,646)		(7,397)		(7,647)	
Loans, net	$367,825		$333,787		$350,894		$364,798	

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

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The following table sets forth certain information at December 31, 2013 regarding the dollar amount of loans repricing or maturing during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated maturity are reported as due in one year or less.

	At December 31, 2013					
	Residential Real Estate	Non-Residential Real Estate	Commercial and Industrial	Construction	Consumer and other	Total
	(In thousands)					
One year or less	$35,592	$ 11,389	$ 23,225	$ 4,639	$ 43	$74,888
More than one year to five years	186,120	54,813	3,986	1,929	12	246,860
More than five years	29,430	15,783	4,134	—	106	49,453
Total	$251,142	$ 81,985	$ 31,345	$ 6,568	$ 161	$371,201

The following table sets forth the dollar amount of all loans at December 31, 2013 that are due after December 31, 2014 and have either fixed or adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total
	(In thousands)		
Residential real estate:			
One- to four-family	$2,318	$ 9,399	$11,718
Multi-family	8,629	156,198	164,827
Mixed-use	2,007	36,998	39,005
Non-residential real estate	7,063	63,533	70,596
Construction	490	1,439	1,929
Commercial and industrial	8,120	—	8,120
Consumer	118	—	118
Total	$28,745	$ 267,567	$296,313

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

	2013	2012	2011	2010	2009
	(In thousands)				
Total loans at beginning of period	$337,804	$357,569	$371,538	$391,947	$364,335
Loans originated:					
Residential real estate:					
One- to four-family	3,235	9,385	450	—	—
Multi-family	44,510	30,745	34,505	5,210	22,423
Mixed-use	14,947	5,863	1,550	—	7,922
Non-residential real estate	9,935	14,597	7,043	420	6,920
Construction	12,904	5,996	—	—	—
Commercial and industrial	4,950	5,701	8,728	2,558	3,026
Consumer	112	16	—	—	35
Total loans originated	90,593	72,303	52,276	8,188	40,326
Construction loan participation purchased	—	—	—	—	5,198
Deduct:					
Loan principal repayments	57,091	83,579	62,527	25,979	17,583
Charge offs	105	8,489	1,375	2,618	2,446
Total deductions	57,196	92,068	63,902	28,597	20,029
Other increases (decreases), net	—	—	(2,343)	—	2,117
Total loans at end of period	$371,201	$337,804	$357,569	$371,538	$391,947

Securities. Our securities portfolio consists primarily of residential mortgage-backed securities and Federal Home Loan Bank of New York (FHLB") stock. Securities decreased by $3.6 million, or 29.4%, from $12.1 million at December 31, 2012, to $8.6 million at December 31, 2013. The decrease was primarily due to maturities and repayments of $3.5 million, partially offset by an increase in FHLB stock of $239,000, or 17.6%, to $1.6 million at December 31, 2013 from $1.4 million at December 31, 2012. The increase in FHLB stock was due to an increase in borrowings from the FHLB, which increased the required amount of FHLB stock. At December 31, 2013 and December 31, 2012, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our consolidated equity.

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

	At December 31,					
	2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available for sale:						
Mortgage-backed securities-						

residential	$110	$113	$125	$129	$145	$149
Securities held to maturity:						
Mortgage-backed securities - residential	$8,444	$8,738	$11,987	$12,561	$16,099	$16,662

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The following table sets forth the stated final maturities and weighted average yields of debt securities at December 31, 2013. Certain mortgage-backed securities have adjustable interest rates and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below. At December 31, 2013, mortgage-backed securities with adjustable rates totaled $6.9 million.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$—	—%	$—	—%	$24	2.08%	$89	2.27%	$113	2.23%
Securities held to maturity:										
Mortgage-backed securities	$—	—%	$74	2.42%	$131	2.11%	$8,239	3.47%	$8,444	3.44%

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

We resumed the use of these services in December 2013 by obtaining $9.7 million in non-broker certificates of deposits due to a need to increase liquidity to fund loan originations and to diversify the sources of funds. As a result, these non-broker certificates of deposits have increased to $9.7 million, or 3.0% of total deposits at December 31, 2013 compared to $746,000, or 0.2% of total deposits, at December 31, 2012.

Deposits increased by $7.1 million, or 2.2%, in the year ended December 31, 2013. The increase in deposits was primarily attributable to efforts by the Company to increase liquidity to fund loan originations, to increase reliance on noninterest bearing demand deposits and long term certificates of deposits, and to decrease reliance on short term rate sensitive NOW and money market deposits. This resulted in increases of $5.4 million in noninterest bearing demand deposits, $3.5 million in certificates of deposits, and $752,000 in savings accounts, offset by a decrease of $2.5 million in NOW and money market deposit accounts.

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

	At December 31,					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
NOW and money market deposit accounts	$60,334	18.55 %	$62,868	19.80 %	$115,411	32.60 %
Savings accounts	85,156	26.19	84,404	26.50	80,548	22.80
Noninterest bearing demand deposits	28,310	8.70	22,932	7.20	15,046	4.30
Certificates of deposit	151,409	46.56	147,916	46.50	142,631	40.30
Total	$325,209	100.0 %	$318,120	100.0 %	$353,636	100.0 %

The Company had $980,000 at December 31, 2013 and $981,000 at December 31, 2012 in Certificate of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits that were fully-insured brokered deposits as defined in the FDIC call report instructions. The CDARS certificates of deposits were obtained from one retail depositor and then transferred into the CDARS Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Networks as reciprocal deposits, which the Company

considers as core deposits and not brokered deposits.

The following table indicates the amount of certificates of deposit with balances over $100,000 by time remaining until maturity as of December 31, 2013. We do not solicit jumbo certificates of deposit nor do we offer special rates for jumbo certificates. The minimum deposit to open a certificate of deposit ranges from $500 to $2,500.

Maturity Period	Certificates of Deposit
	(In thousands)
Three months or less	$ 2,066
Over three through six months	7,014
Over six through twelve months	26,006
Over twelve months	54,613
Total	$ 89,699

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Borrowings. We may utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments and to meet deposit withdrawal requirements. Advances from the FHLB increased to $21.0 million as of December 31, 2013 from $15.0 million FHLB advances outstanding as of December 31, 2012.

The contractual maturities of FHLB advances at December 31, 2013 are as follows:

	Amount	Weighted Average Interest Rate	
Advances maturing in:			
One year or less	$16,000	1.45	%
After one to two years	2,000	0.68	
After two to three years	3,000	1.03	
	$21,000	1.32	%

Stockholders' Equity. Stockholders' equity increased by $319,000, or 0.3%, to $104.2 million at December 31, 2013, from $103.8 million at December 31, 2012. The increase was primarily due to comprehensive net income of $1.3 million and $164,000 for ESOP shares earned for the period, partially offset by cash dividends declared of $602,000 and treasury stock purchase of $579,000.

On December 12, 2013, Northeast Community Bancorp, MHC, the Company's majority stockholder, received notice from the Federal Reserve Board that it did not object to the waiver of dividends paid by the Company in the twelve months following MHC member approval of the dividend waiver, which occurred on November 12, 2013. *See "Risk Factors—The amount of dividends we pay on our common stock, if any, may be limited by the ability of NorthEast Community Bancorp, MHC to waive receipt of dividends."*

Results of Operations for the Years Ended December 31, 2013 and 2012

Overview.

	2013	2012	% Change	
	(Dollars in thousands)			
Net income (loss)	$1,137	$(2,514)	145.23	%
Return on average assets	0.26 %	(0.54)%	148.15	
Return on average equity	1.08 %	(2.35)%	145.96	
Average equity to average assets	24.07%	22.81 %	5.5	

Net income for the year ended December 31, 2013 increased by $3.7 million, or 145.2%, to $1.1 million from a net loss of $2.5 million in 2012. The increase was primarily the result of decreases in the provision for loan losses and non-interest expense, offset by decreases in net interest income and non-interest income and an increase in income taxes.

Net Interest Income. Net interest income decreased by $905,000, or 5.6%, to $15.4 million for the year ended December 31, 2013, from $16.3 million for the year ended December 31, 2012. The decrease in net interest income resulted from a decrease of $1.5 million in interest income that exceeded a decrease of $571,000 in interest expense.

The decrease in interest income was due to decreases in the average balance and yield of our interest earning assets, primarily loans receivable, securities, and other interest-earning assets. In this regard, the average balance of our interest earning assets decreased by $42.9 million, or 9.9%, to $390.1 million for the year ended December 31, 2013 from $433.0 million for the year ended December 31, 2012.

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The net interest spread increased by 19 basis points to 3.69% for the year ended December 31, 2013 from 3.50% for the year ended December 31, 2012. The net interest margin increased by 18 basis points to 3.94% for the year ended December 31, 2013 from 3.76% for the year ended December 31, 2012. The increase in the net interest rate spread and the net interest margin in 2013 compared to 2012 was due to an increase in the yield on our interest-earning assets coupled with a decrease in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets increased by 13 basis points to 4.76% for the year ended December 31, 2013 from 4.63% for the year ended December 31, 2012 and the cost of our interest-bearing liabilities decreased by 6 basis points to 1.07% for the year ended December 31, 2013 from 1.13% for the year ended December 31, 2012. The increase in the yield on our interest earning assets was due to a decrease in other interest-earning assets, resulting in a shift in the composition of interest-earning assets whereby higher yielding loans receivable represented a larger percentage of total interest-earning assets for the year ended December 31, 2013 compared to the year ended December 31, 2012. The decrease in the cost of our interest-bearing liabilities was due to our decision to reduce interest rates offered on our deposits.

Total interest income decreased by $1.5 million, or 7.4%, to $18.6 million for the year ended December 31, 2013 from $20.0 million for the year ended December 31, 2012. Interest income on loans decreased by $1.3 million, or 6.7%, to $18.2 million for 2013 from $19.5 million for 2012 as a result of a decrease of 27 basis points in the average yield on loans to 5.26% for 2013 from 5.53% for 2012 and a decrease in the average balance of loans receivable. The average balance of loans receivable decreased by $6.5 million, or 1.8%, to $346.4 million at December 31, 2013 from $352.9 million at December 31, 2012. The decrease in the average balance and yield of our loans receivable was due to the pay-off of higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of mortgage loans in our loan portfolio.

Interest income on securities decreased by $155,000, or 32.0%, to $329,000 for 2013 from $484,000 for 2012 as a result of a decrease of 17 basis points in the average yield on securities to 2.91% for 2013 from 3.08% for 2012 and a decrease in the average balance of securities. The average balance of securities decreased by $4.4 million, or 28.0%, to $11.3 million at December 31, 2013 from $15.7 million at December 31, 2012. The decrease in the yield on our securities was due to the re-pricing of the yield of our adjustable rate investment securities and a decrease in the FHLB stock yield from 4.5% in 2012 to 4.2% in 2013. The decrease in the average balance on our securities was due to the principal repayments on investment securities.

Interest income on other interest-earning assets decreased by $21,000, or 61.8%, to $13,000 for 2013 from $34,000 for 2012 as a result of a decrease of 1 basis points in the average yield on other interest-earning assets to 0.04% for 2013 from 0.05% for 2012 and a decrease in the average balance of other interest-earning assets. The average balance of other interest-earning assets decreased by $32.0 million, or 49.7%, to $32.4 million at December 31, 2013 from $64.4 million at December 31, 2012. The decline in the yield was due to the maturity of higher yielding certificates of deposits at other financial institutions. The decrease in the average balance of other interest-earning assets was due to decreases in the average balance of cash equivalents to fund loan originations.

Total interest expense decreased by $571,000, or 15.2%, to $3.2 million for the year ended December 31, 2013 from $3.8 million for the year ended December 31, 2012. Interest expense on deposits decreased by $254,000, or 7.9%, to $3.0 million for the year ended December 31, 2013 from $3.2 million for the year ended December 31, 2012. During this same period, the average interest cost of deposits remained the same at 1.01% for the year ended December 31, 2013 and December 31, 2012.

The decrease in interest expense on deposits was due to a decrease of $26.0 million, or 8.2%, in the average balance of interest-bearing deposits to $292.5 million for the year ended December 31, 2013 from $318.5 million for the year ended December 31, 2012. The decrease in the average balance of interest-bearing deposits was due to decreases in the average balance of our interest-bearing demand deposits and interest-bearing savings and club accounts, offset by increases in the average balance of our interest-bearing certificates of deposits. The decrease in the average balances of our interest-bearing demand deposits and interest-bearing savings and club accounts was due to our decision to reduce the interest rates offered on these deposits. The increase in the average balance of our interest-bearing certificates of deposit was due to offering competitive interest rates in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012.

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The interest expense of our interest-bearing demand deposits decreased by $278,000, or 55.9%, to $219,000 for the year ended December 31, 2013 from $497,000 for the year ended December 31, 2012. The decrease in interest expense in our interest-bearing demand deposits was due to our decision to reduce the interest rates on interest-bearing demand deposits that resulted in a 19 basis point decrease in the average interest cost to 0.35% for the year ended December 31, 2013 from 0.54% for the year ended December 31, 2012. The decrease in interest expense on our interest-bearing demand deposits was also due to a decrease of $29.9 million, or 32.5%, in the average balance of our interest-bearing demand deposits to $62.2 million for the year ended December 31, 2013 from $92.1 million for the year ended December 31, 2012.

The interest expense of our interest-bearing savings and club deposits decreased by $113,000, or 20.3%, to $445,000 for the year ended December 31, 2013 from $558,000 for the year ended December 31, 2012. The decrease in interest expense in our interest-bearing savings and club deposits resulted from our decision to reduce the interest rates on interest-bearing savings and club deposits that resulted in a 10 basis point decrease in the average interest cost to 0.54% for the year ended December 31, 2013 from 0.64% for the year ended December 31, 2012. The decrease in interest expense on our interest-bearing savings and club deposits was also due to a decrease of $4.5 million, or 5.2%, in the average balance of our interest-bearing savings and club deposits to $83.0 million for the year ended December 31, 2013 from $87.5 million for the year ended December 31, 2012.

The interest expense of our interest-bearing certificates of deposit increased by $137,000, or 6.3%, to $2.3 million for the year ended December 31, 2013 from $2.2 million for the year ended December 31, 2012. The increase in interest expense in our interest-bearing certificates of deposit was due to an increase of $8.4 million, or 6.1%, in the average balance of our interest-bearing certificates of deposit to $147.3 million for the year ended December 31, 2013 from $138.9 million for the year ended December 31, 2012. The increase in the average balance of our interest-bearing certificates of deposit and the average interest cost was due to offering competitive interest rates in connection with the opening of two new branches in Framingham and Quincy, Massachusetts during the latter part of the third quarter of 2012. The average interest cost of certificates of deposits remained the same at 1.55% for the year ended December 31, 2013 and December 31, 2012.

Interest expense on borrowings decreased by $317,000, or 56.8%, to $241,000 for the year ended December 31, 2013 from $558,000 for the year ended December 31, 2012. The decrease was primarily due to a decrease of $8.9 million, or 56.0%, in the average balance of borrowed money to $7.0 million for the year ended December 31, 2013 from $16.0 million for the year ended December 31, 2012. The decrease was also due to a decrease of 5 basis points in the cost of borrowed money to 3.44% for the year ended December 31, 2013 from 3.49% for the year ended December 30, 2012 due primarily to the maturity and repayment of higher costing FHLB advances from 2012 to 2013 and the origination of new lower costing FHLB advances in the latter part of 2013.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances

have been calculated using average daily balances. Average loan balances include nonaccrual loans. Loan fees are included in interest income on loans. Interest income on loans and investment securities has not been calculated on a tax equivalent basis because the impact would be insignificant.

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	Year Ended December 31,							
	2013			2012			2011	
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Divider
	(Dollars in Thousands)							
Assets:								
Interest-earning assets:								
Loans	$346,449	$18,210	5.26%	$352,912	$19,510	5.53%	$369,188	$21,42
Securities	11,305	329	2.91	15,704	484	3.08	20,781	687
Other interest-earning assets	32,394	13	0.04	64,399	34	0.05	46,825	41
Total interest-earning assets	390,148	18,552	4.76	433,015	20,028	4.63	436,794	22,15
Allowance for loan losses	(4,305)			(5,785)			(7,768)	
Noninterest-earning assets	49,535			41,740			33,440	
Total assets	$435,378			$468,970			$462,466	
Liabilities and equity:								
Interest-bearing liabilities:								
Interest-bearing demand	$62,181	$219	0.35%	$92,110	$497	0.54%	$82,587	$698
Savings and club accounts	82,976	445	0.54	87,505	558	0.64	62,093	424
Certificates of deposit	147,307	2,287	1.55	138,895	2,150	1.55	167,603	3,425
Total interest-bearing deposits	292,464	2,951	1.01	318,510	3,205	1.01	312,283	4,547
Borrowings	7,033	241	3.43	15,971	558	3.49	23,034	630
Total interest-bearing liabilities	299,497	3,192	1.07	334,481	3,763	1.13	335,317	5,177
Noninterest-bearing demand	23,234			19,715			12,027	
Other liabilities	7,834			7,814			7,033	
Total liabilities	330,565			362,010			354,377	
Stockholders' equity	104,813			106,960			108,089	
Total liabilities and Stockholders' equity	$435,378			$468,970			$462,466	
Net interest income		$15,360			$16,265			$16,97
Interest rate spread			3.69%			3.50%		
Net interest margin			3.94%			3.76%		
Net interest-earning assets	$90,651			$98,534			$101,477	
Interest-earning assets to interest-bearing liabilities	130.27 %			129.46 %			130.26 %	

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

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	2013 Compared to 2012 Increase (Decrease) Due to			2012 Compared to 2011 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest and dividend income:						
Loans receivable	$(353)	$(947)	$(1,300)	$(923)	$(990)	$(1,913)
Investment securities	(129)	(26)	(155)	(159)	(44)	(203)
Other interest-earning assets	(14)	(7)	(21)	12	(19)	(7)
Total interest-earning assets	(496)	(980)	(1,476)	(1,070)	(1,053)	(2,123)
Interest expense:						
Interest-bearing demand deposits	(134)	(144)	(278)	73	(274)	(201)
Savings accounts	(28)	(85)	(113)	164	(30)	134
Certificates of deposit	131	5	137	(528)	(747)	(1,275)
Borrowings	(308)	(8)	(317)	(221)	149	(72)
Total interest-bearing liabilities	(339)	(232)	(571)	(512)	(902)	(1,414)
Net change in interest income	$(157)	$(748)	$(905)	$(558)	$(151)	$(709)

Provision for Loan Losses. We recorded a reduction to the allowance for loan losses of $554,000 and a provision for loan losses of $5.6 million during the years ended December 31, 2013 and 2012, respectively. During 2013, we charged-off $105,000 against two non-performing non-residential mortgage loans to reduce the aggregate carry value to $2.8 million as of December 31, 2013. During 2012, we charged-off $8.5 million against 29 non-performing loans to reduce the aggregate carrying value to $11.2 million as of December 31, 2012. The primary reason for the decreased provision during 2013 was an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions and a decrease in our borrowers requesting assistance through modification of loan terms. We recorded recoveries of $27,000 and $115,000 during the years ended December 31, 2013 and December 31, 2012, respectively.

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

Noninterest Income. The following table shows the components of noninterest income for the years ended December 31, 2013 and 2012.

	2013	2012	% Change 2013/2012
	(Dollars in thousands)		

Other loan fees and service charges	$601	$1,080	(44.4)%
Loss on dispositions of premises and equipment	(1)	(9)	(88.9)
Earnings on bank owned life insurance	638	616	3.4
Investment advisory fees	729	877	(16.9)
Other	22	15	57.1
Total	$1,989	$2,579	(22.9)%

The decrease in noninterest income was primarily due to decreases of $479,000 in other loan fees and service charges, $148,000 in investment advisory fee income, and $8,000 in net loss on disposition of premises and equipment, offset by increases of $22,000 in earnings on bank owned life insurance and $8,000 in other non-interest income.

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The decrease in other loan fees and service charges was due to a decrease of $523,000 in mortgage broker fee income, offset by an increase of $51,000 in commercial and industrial loan fee income. The decrease in mortgage broker fee income was due to the elimination of the 1-4 family residential mortgage loan brokerage department and the termination of the related staff in January 2013. The decrease in investment advisory fee income was due to the termination in late 2012 of a staff member who specialized in insurance products.

Noninterest Expense. The following table shows the components of noninterest expense and the percentage changes for the years ended December 31, 2013 and 2012.

	Year Ended December 31,		% Change
	2013	2012	2013/2012
	(Dollars in thousands)		
Salaries and employee benefits	$ 8,224	$ 9,332	(11.9)%
Net occupancy expense of premises	1,469	1,323	11.0
Equipment	637	759	(16.1)
Outside data processing	1,046	1,032	1.4
Advertising	59	261	(77.4)
Impairment loss on goodwill	334	227	47.1
REO expenses	425	36	1,080.6
FDIC insurance premiums	392	367	6.8
Service contracts	402	392	2.7
Insurance	222	215	3.2
Audit and accounting	440	288	52.6
Directors compensation	461	405	13.9
Telephone	392	345	13.7
Office supplies and stationary	77	118	(34.7)
Director, officer, and employee expenses	332	725	(54.2)
Legal fees	630	826	(23.8)
Other	824	1,385	(40.5)
Total noninterest expenses	$ 16,366	$ 18,036	(9.3)

Non-interest expense decreased by $1.7 million, or 9.3%, to $16.4 million for the year ended December 31, 2013 from $18.0 million for the year ended December 31, 2012. The decrease resulted primarily from decreases of $1.1 million in salaries and employee benefits, $202,000 in advertising expense, and $122,000 in equipment expense, partially offset by increases of $389,000 in real estate expense, $146,000 in occupancy expense, $107,000 in impairment loss on goodwill, $25,000 in FDIC insurance expense, and $14,000 in outside data processing expense.

Salaries and employee benefits, which represented 50.3% of the Company’s non-interest expense for the year ended December 31, 2013, decreased by $1.1 million, or 11.9%, to $8.2 million in 2013 from $9.3 million in 2012. The decrease was due to a decrease in the number of full time equivalent employees to 102 at December 31, 2013 from 123 at December 31, 2012, offset by the staffing of the second New York loan production office that opened in

January 2014. The decrease in full time equivalent employees was due to the Company’s efforts to control cost by reducing staff in various departments, including the mortgage brokerage department, the wealth management department, and branch operations during 2013. The decrease in salaries and employee benefits was also due to the resignation of the former chief financial officer in July 2013 that resulted in the forfeiture of certain benefits.

Advertising expense decreased by $202,000, or 77.4%, to $59,000 in 2013 from $261,000 in 2012 and equipment expense decreased by $122,000, or 16.1%, to $637,000 in 2013 from $759,000 in 2012 due to efforts to contain certain marketing and equipment costs. These expenses also decreased due to the opening of the Framingham and Quincy, Massachusetts branch offices in 2012 that resulted in additional marketing cost and the purchases of additional equipment in 2012 compared to no new branch office openings in 2013.

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Real estate owned expenses increased by $389,000 due to operating expenses related to two foreclosed properties of which one was sold in June 2013 resulting in a loss of $51,000.

Occupancy expense increased by $146,000, or 11.0%, to $1.5 million for the year ended December 31, 2013 from $1.3 million for the year ended December 31, 2012 due to the addition of the new Framingham and Quincy, Massachusetts branch offices in the latter part of 2012 and payment of arrearage cooperative assessments for the 23rd Street, New York branch office.

During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment of $227,000 previously recorded in 2012 was necessary. As a result, an additional impairment charge of $334,000 was recognized in 2013. The goodwill was recorded in connection with the Hayden Financial Group acquisition in 2007. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Outside data processing expense increased by $14,000, or 1.4%, to $1.05 million for the year ended December 31, 2013 from $1.03 million for the year ended December 31, 2012 due primarily to additional services provided in 2013 by the Company's core data processing vendor as a result of the expansion of the Company's facilities and services. FDIC insurance expense increased by $25,000, or 6.8%, to $392,000 in 2013 from $367,000 in 2012.

Other non-interest expense decreased by $919,000, or 19.6%, to $3.8 million in 2013 from $4.7 million in 2012 due mainly to decreases of $393,000 in directors, officers and employee expenses, $327,000 in recruitment expenses related to the hiring of additional personnel in the Company's Headquarters and Massachusetts locations in 2012, $196,000 in legal fees, $141,000 in consulting services, $70,000 in regulatory assessments, $41,000 in office supplies, and $25,000 in donations, offset by increases of $152,000 in audit and accounting fees, $56,000 in directors compensation, $47,000 in telephone expenses, $11,000 in service contracts, and $7,000 in insurance expenses.

Provision for Income Taxes. Income taxes increased by $2.7 million, or 117.4%, to an expense of $400,000 for the year ended December 31, 2013 from a benefit of $2.3 million for the year ended December 31, 2012. The increase resulted primarily from a $6.4 million increase in pre-tax income in 2013 compared to 2012. The effective tax rate was an expense of 26.0% for the year ended December 31, 2013 compared to a benefit of 47.8% for the year ended December 31, 2012.

Risk Management

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

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

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

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

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

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

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

Should a workable plan not be possible, the director of special assets is charged with disposing of the loan as quickly and cost effectively as possible. This may be accomplished through foreclosure, a sale of the note and mortgage or a short sale.

In connection with the above, the Bank has entered into short-term restructuring agreements with various borrowers.

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

At December 31, 2012, the Bank had eleven restructured mortgage loans totaling $13.4 million, comprised of five multi-family mortgage loans totaling $5.5 million, one mixed-use mortgage loan totaling $916,000, and five nonresidential mortgage loans totaling $7.0 million. Except for two nonresidential mortgage loans totaling $1.2 million that were non-performing and nonaccrual, each of the remaining ten restructured loans were performing under the terms of the restructured agreements at December 31, 2012. Restructuring terms were generally consistent with market terms.

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

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

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

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

	At December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Nonaccrual loans:					
Residential real estate:					
One- to four-family	$—	$—	$—	$—	$—
Multi-family	—	1,477	4,229	2,219	5,806
Mixed-use	2,210	—	722	—	—
Non-residential real estate	2,372	2,480	6,634	5,457	14,344
Construction	—	—	7,661	11,575	—
Commercial and industrial	84	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	4,666	3,957	19,246	19,251	20,150
Accruing loans past due 90 days or more:					
Residential real estate:					
One- to four-family	—	—	—	—	—
Multi-family	—	—	1,192	2,555	—
Mixed-use	—	—	—	—	—
Non-residential real estate	—	—	—	—	—
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total	—	—	1,192	2,555	—
Total non-performing loans	4,666	3,957	20,438	21,806	20,150
Foreclosed real estate	3,985	4,271	620	933	636
Total non-performing assets	8,651	8,228	21,058	22,739	20,786
Performing troubled debt restructurings	15,535	12,236	14,039	30,893	13,175
Nonaccrual troubled debt restructurings	1,269	1,197	1,435	—	—
Total troubled debt restructurings	16,804	13,433	15,474	30,893	13,175
Less nonaccrual troubled debt restructuring in total nonaccrual loans	1,269	1,197	1,435	—	—
Troubled debt restructurings and total non-performing assets	$24,186	$20,464	$35,097	$53,632	$33,961
Total non-performing loans to total loans	1.26 %	1.17 %	5.72 %	5.87 %	5.14 %
Total non-performing assets to total assets	1.89 %	1.85 %	4.30 %	4.88 %	3.94 %
Total non-performing assets and troubled debt restructurings to total assets	5.28 %	4.61 %	7.17 %	11.51 %	6.44 %

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Other than disclosed in the above table and in the classified assets table below, management believes that there are no other loans at December 31, 2013 and December 31, 2012 that we have serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

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

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

The nonaccrual loans at December 31, 2012 consisted of nine loans in the aggregate, comprised of five multi-family mortgage loans and four non-residential mortgage loans. Non-performing loans decreased by $16.5 million, or 80.6%, to $4.0 million at December 31, 2012 from $20.4 million at December 31, 2011. The decrease in non-performing loans was due to the satisfaction of eight nonaccrual and one accruing mortgage loans totaling $5.5 million, the conversion from non-performing to performing status of five mortgage loans totaling $8.9 million, the foreclosure into real estate owned of two non-residential mortgage loans totaling $4.3 million (net of charge-offs of $700,000), and charge-offs of $3.0 million against four non-performing loans. These were offset by the addition of seven mortgage loans totaling $2.4 million that became non-performing at December 31, 2012.

The one nonaccrual mixed-use mortgage loan totaled $2.2 million at December 31, 2013, consist primarily of the following:

(1) An outstanding balance of $2.2 million secured by three separate buildings with 25 apartment units and office spaces. We classified this loan as substandard. The Company intends to request the Court to appoint a receiver to collect the rents, maintain the properties, and eventually sell the properties subject to the mortgage.

The four nonaccrual non-residential real estate loans, net of charge-offs of $931,000, totaled $2.4 million at December 31, 2013 consist primarily of the following mortgage loans:

(1) An outstanding balance of $824,000, net of a charge-off of $371,000, secured by a gasoline service station and car wash. We classified this loan as substandard. The Company has commenced a foreclosure action and has applied to the Court to appoint a receiver. We are evaluating the options currently available to us.

(2) An outstanding balance of $789,000, net of charge-off of $234,000, secured by a medical office building. We classified this loan as substandard. The Company has commenced a foreclosure action and the Court has appointed a receiver. Subsequent to December 31, 2013, the Company entered into an Assignment of Bid Agreement with a real estate investor known to the Bank.

(3) An outstanding balance of $445,000, net of charge-offs of $400,000, secured by a strip shopping center and warehouse. We classified this loan as substandard. The property was severely damaged by fire and the Company and borrower are currently suing the insurance company and the borrower's insurance agent as part of the Company's collection efforts. The borrower is making monthly escrow payments.

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(4) An outstanding balance of $314,000, secured by a building housing auto repair and auto rental facilities. We classified this loan as substandard. The Company has commenced a foreclosure action, but the borrower filed for bankruptcy protection on March 18, 2014. We are evaluating the options currently available to us.

We are in the process of foreclosing on the above-mentioned first, second, and fourth nonaccrual non-residential mortgage loans. Based on recent fair value analyses of these properties, the Company does not expect any losses beyond the amounts already charged off.

Interest income that would have been recorded for the year ended December 31, 2013 had nonaccruing loans been performing in accordance with their original terms amounted to approximately $160,000. During the year ended December 31, 2013, the Bank recognized interest income of approximately $98,000 on the non-accrual loans.

At December 31, 2013, we owned one foreclosed property with a net balance of $4.0 million consisting of an office building located in Lawrenceville, New Jersey. We have begun marketing the New Jersey office building for sale.

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

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

	At December 31,		
	2013	2012	2011
	(In thousands)		
Special mention assets	$5,612	$3,058	$4,259

Substandard assets	12,536	13,872	24,146
Doubtful and loss assets	—	—	—
Total classified assets	$18,148	$16,930	$28,405

The increase in classified assets was due to the addition of one mixed-use loan with a balance of $2.2 million. On the basis of management's review of assets, we classified $5.6 million of our assets at December 31, 2013 as special mention compared to $3.1 million classified as special mention at December 31, 2012. In addition, we classified $12.5 million as substandard at December 31, 2013 compared to $13.9 million at December 31, 2012.

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The increase in special mention assets was due to the addition of six commercial and industrial loans totaling $3.8 million that were newly classified as special mention and four commercial and industrial loans totaling $1.8 million that were reclassified from substandard to special mention, offset by four multi-family mortgage loans, one mixed-use mortgage loan, and one non-residential mortgage loan totaling $3.0 million that were performing and no longer considered to be potential risk for non-performance and one multi-family mortgage loan totaling $89,000 that was paid-off.

The decrease in substandard assets was due to two multi-family mortgage loans totaling $3.8 million that were performing and no longer considered to be potential risk for non-performance, three commercial and industrial loans totaling $1.9 million that were performing and reclassified from substandard to special mention, and one multi-family mortgage loan and one commercial and industrial loan totaling $353,000 that were paid-off, offset by two non-residential and one mixed-use mortgage loans totaling $4.6 million that were newly classified as substandard.

The substandard loans at December 31, 2013 consisted of nine loans in the aggregate – one mixed-use mortgage loan and eight non-residential mortgage loans. See the nonaccrual loan discussion above for a description of the material nonaccrual loans that are classified as substandard, comprised of the one mixed-use substandard mortgage loan and three of the eight substandard non-residential mortgage loans.

The five substandard non-residential mortgage loans that were not described in the above-mentioned nonaccrual section consisted of (1) three mortgage loans that were current, had an outstanding balance of $5.9 million, net of charge-offs of $2.4 million, and were secured by a hotel as of December 31, 2013, (2) a mortgage loan that was current, had an outstanding balance of $2.0 million and was secured by an office building as of December 31, 2013, and (3) a mortgage loan that was current, had an outstanding balance of $314,000 and was secured by an industrial and warehouse building as of December 31, 2013.

Troubled Debt Restructured Loans. There were four loans modified in a troubled debt restructuring during 2013.

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

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

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

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

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

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

There were no charge offs of loans classified as troubled debt restructurings during 2013.

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

There were four loans modified in a troubled debt restructuring during 2012.

The first multi-family mortgage loan had an original interest rate of 6.75% with an amortization of 30 years that was modified to interest only payments at a rate of 4% for five years and then amortizing for 30 years, with a balloon payment due after approximately ten years from the modification date.

The second multi-family mortgage loan had an original interest rate of 6.25% with an amortization of 30 years that was modified to interest only payments at a rate of 3% for the first year and 4% for the second year and then amortizing for 30 years, with a balloon payment due after five years from the modification date.

The third multi-family mortgage loan had an original interest rate of 5.625% with an amortization of 15 years that was modified to amortizing for 30 years at a rate of 4.625% with a balloon payment due after ten years from the modification date.

The non-residential mortgage loan was originally a purchased construction loan participation with an original blended interest rate of 8.06% and interest only payments that was modified to an interest rate of 5% for two years with interest only payments and a balloon payment due after two years.

As of December 31, 2012, except for one non-residential mortgage loan totaling $755,000 that defaulted on its modified terms in 2012 and now is in foreclosure, none of the loans that were modified during the previous twelve months had defaulted in the preceding twelve month period ended December 31, 2012.

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

	Residential Real Estate	Nonresidential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2011	$ 9,886	$ 10,139	$ —	$ —	$ —	$ 20,025
Additions	1,885	7,790	—	—	—	9,675
Repayments	(525)	(1,814)	—	—	—	(2,339)
Loans removed from TDR status	(1,781)	(2,018)	—	—	—	(3,799)
Charge-offs	(3,021)	(3,287)	—	—	—	(6,308)
Transferred to REO	—	(3,821)	—	—	—	(3,821)
Balance at December 31, 2012	$ 6,444	$ 6,989	$ —	$ —	$ —	$ 13,433
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

There were charge offs of $6.3 million during 2012.

Additions for the period consist of four aforementioned mortgage loans that were modified, and real estate taxes and similar items paid to protect the collateral position of the Company.

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

	At December 31,					
	2013		2012		2011	
	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
	(In thousands)					
Residential real estate:						
One- to four-family	$—	$ —	$—	$ —	$—	$ —
Multi-family	—	—	—	89	—	545
Mixed-use	—	2,210	—	—	—	—
Non-residential real estate	—	—	1,259	—	—	—
Construction	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer and other loans	—	—	—	—	—	—

Total	$—	$ 2,210	$1,259	$ 89	$—	$ 545

The delinquent loan at December 31, 2013 consisted of one mixed-use mortgage loan that the Company has classified as nonaccrual and substandard.

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

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

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

At December 31, 2013, our allowance for loan losses was $4.0 million and represented 1.08% of total gross loans. At December 31, 2012, our allowance for loan losses was $4.6 million and represented 1.38% of total gross loans. At December 31, 2011, our allowance for loan losses was $7.4 million and represented 2.07% of total gross loans. The primary reason for the reduction in allowance for loan losses from 2012 to 2013 was due to an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions, a decrease in our borrowers requesting assistance through modification of loan terms, and charge-offs of $105,000 against two non-performing non-residential mortgage loans. This was offset by recoveries of $27,000 from one mixed-use mortgage loan and one non-residential mortgage loan.

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

	At December 31, 2013			2012			2011		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential real estate:									
One- to four-family	$29	0.7 %	3.2 %	$19	0.4 %	2.3 %	$—	— %	0.2 %

Multi-family	2,266	56.4	50.9	2,910	62.6	52.8	3,390	45.8	52.9
Mixed-use	261	6.5	13.6	287	6.2	12.4	391	5.3	14.3
Non-residential real estate	896	22.3	22.1	996	21.5	24.5	1,596	21.6	23.4
Construction	97	2.4	1.8	—	—	0.2	1,724	23.3	2.5
Commercial and industrial	456	11.4	8.4	434	9.3	7.8	296	4.0	6.7
Consumer	—	—	—	—	—	—	—	—	—
Unallocated	10	0.3	—	—	—	—	—	—	—
Total allowance for loan losses	$4,015	100.0 %	100.0 %	$4,646	100.0 %	100.0 %	$7,397	100.0 %	100.0 %

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	At December 31,									
	2010					2009				
	Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans		Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans	
	(Dollars in thousands)									
Residential real estate:										
One- to four-family	$—	—	%	0.1	%	$—	—	%	0.1	%
Multi-family	3,450	45.1		51.1		3,350	49.8		51.3	
Mixed-use	474	6.2		14.9		598	8.9		15.3	
Non-residential real estate	1,560	20.4		27.1		2,495	37.0		26.8	
Construction	2,083	27.2		3.5		186	2.8		3.9	
Commercial and industrial	80	1.1		3.3		104	1.5		2.6	
Consumer	—	—		—		—	—		—	
Unallocated	—	—		—		—	—		—	
Total allowance for loan losses	$7,647	100.0	%	100.0	%	$6,733	100.0	%	100.0	%

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

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Allowance at beginning of period	$4,646	$7,397	$7,647	$6,733	$1,865
Provision for loan losses	(554)	5,623	1,113	3,487	7,314
Charge offs:					
Residential real estate:					
One- to four-family	—	(59)	—	—	—
Multi-family	—	(4,035)	(1,358)	(1,211)	(857)
Mixed-use	—	(278)	—	—	—
Non-residential real estate	(105)	(2,374)	(17)	(1,407)	(1,589)
Construction	—				