

NEW YORK COMMUNITY BANCORP INC

Form 10-Q

May 10, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018**

**Commission File Number 1-31565**

**NEW YORK COMMUNITY BANCORP, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**06-1377322**  
**(I.R.S. Employer**  
**Identification No.)**

**615 Merrick Avenue, Westbury, New York 11590**

**(Address of principal executive offices)**

**(Registrant's telephone number, including area code) (516) 683-4100**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definition of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

490,393,912

Number of shares of common stock outstanding at

May 1, 2018

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**NEW YORK COMMUNITY BANCORP, INC.**

**FORM 10-Q**

**Quarter Ended March 31, 2018**

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**GLOSSARY**

**BASIS POINT**

Throughout this filing, the year-over-year changes that occur in certain financial measures are reported in terms of basis points. Each basis point is equal to one hundredth of a percentage point, or 0.01%.

**BOOK VALUE PER COMMON SHARE**

Book value per common share refers to the amount of common stockholders' equity attributable to each outstanding share of common stock, and is calculated by dividing total stockholders' equity less preferred stock at the end of a period, by the number of shares outstanding at the same date.

**BROKERED DEPOSITS**

Refers to funds obtained, directly or indirectly, by or through deposit brokers that are then deposited into one or more deposit accounts at a bank.

**CHARGE-OFF**

Refers to the amount of a loan balance that has been written off against the allowance for loan losses.

**COMMERCIAL REAL ESTATE LOAN**

A mortgage loan secured by either an income-producing property owned by an investor and leased primarily for commercial purposes or, to a lesser extent, an owner-occupied building used for business purposes. The commercial real estate loans in our portfolio are typically secured by office buildings, retail shopping centers, and light industrial centers with multiple tenants, or mixed-use properties.

**COST OF FUNDS**

The interest expense associated with interest-bearing liabilities, typically expressed as a ratio of interest expense to the average balance of interest-bearing liabilities for a given period.

**COVERED LOANS AND OTHER REAL ESTATE OWNED**

Refers to the loans and other real estate owned we acquired in our AmTrust Bank and Desert Hills Bank acquisitions, which are covered by loss sharing agreements with the FDIC. See the definition of Loss Sharing Agreements that appears later in this glossary.

**CRE CONCENTRATION RATIO**

Refers to the sum of multi-family, non-owner occupied commercial real estate, and acquisition, development, and construction loans divided by total risk-based capital.

**DEBT SERVICE COVERAGE RATIO**

An indication of a borrower's ability to repay a loan, the debt service coverage ratio generally measures the cash flows available to a borrower over the course of a year as a percentage of the annual interest and principal payments owed during that time.

**DERIVATIVE**

A term used to define a broad base of financial instruments, including swaps, options, and futures contracts, whose value is based upon, or derived from, an underlying rate, price, or index (such as interest rates, foreign currency, commodities, or prices of other financial instruments such as stocks or bonds).

**DIVIDEND PAYOUT RATIO**

The percentage of our earnings that is paid out to shareholders in the form of dividends. It is determined by dividing the dividend paid per share during a period by our diluted earnings per share during the same period of time.

**EFFICIENCY RATIO**

Measures total operating expenses as a percentage of the sum of net interest income and non-interest income.

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**GOODWILL**

Refers to the difference between the purchase price and the fair value of an acquired company's assets, net of the liabilities assumed. Goodwill is reflected as an asset on the balance sheet and is tested at least annually for impairment.

**GOVERNMENT-SPONSORED ENTERPRISES**

Refers to a group of financial services corporations that were created by the United States Congress to enhance the availability, and reduce the cost, of credit to certain targeted borrowing sectors, including home finance. The GSEs include, but are not limited to, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks.

**GSE OBLIGATIONS**

Refers to GSE mortgage-related securities (both certificates and collateralized mortgage obligations) and GSE debentures.

**INTEREST RATE LOCK COMMITMENTS**

Refers to commitments we had made to originate new one-to-four family loans at specific (i.e., locked-in) interest rates.

**INTEREST RATE SENSITIVITY**

Refers to the likelihood that the interest earned on assets and the interest paid on liabilities will change as a result of fluctuations in market interest rates.

**INTEREST RATE SPREAD**

The difference between the yield earned on average interest-earning assets and the cost of average interest-bearing liabilities.

**LOAN-TO-VALUE RATIO**

Measures the balance of a loan as a percentage of the appraised value of the underlying property.

**LOSS SHARING AGREEMENTS**

Refers to the agreements we entered into with the FDIC in connection with the loans and OREO we acquired in our AmTrust and Desert Hills acquisitions. The agreements called for the FDIC to reimburse us for 80% of any losses (and share in 80% of any recoveries) up to specified thresholds and to reimburse us for 95% of any losses (and share in 95% of any recoveries) beyond those thresholds with respect to the acquired assets for specified periods of time. The loss sharing agreements with respect to the one-to-four family loans and home equity loans we acquired in these transactions extended for a period of ten years from the respective dates of acquisition. Such loans are referred to as covered loans. As of September 30, 2017, the loss sharing agreements are no longer in effect.

**MORTGAGE BANKING INCOME**

Refers to the income generated through our mortgage banking business, which is recorded in non-interest income. Mortgage banking income has two components: income generated from the origination of one-to-four family loans for sale (income from originations) and income generated by servicing such loans (servicing income).

#### **MORTGAGE SERVICING RIGHTS**

The right to service mortgage loans for others is recognized as an asset, and recorded at fair value, when our loans are sold or securitized, servicing retained.

#### **MULTI-FAMILY LOAN**

A mortgage loan secured by a rental or cooperative apartment building with more than four units.

#### **NET INTEREST INCOME**

The difference between the interest income generated by loans, securities and money market instruments, and the interest expense produced by deposits and borrowed funds.

#### **NET INTEREST MARGIN**

Measures net interest income as a percentage of average interest-earning assets.

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### **NON-ACCRUAL LOAN**

A loan generally is classified as a non-accrual loan when it is 90 days or more past due or when it is deemed to be impaired because we no longer expect to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. A loan generally is returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.

### **NON-COVERED LOANS AND OREO**

Refers to all of the loans and OREO in our portfolio that are not covered by our loss sharing agreements with the FDIC.

### **NON-PERFORMING LOANS AND ASSETS**

Non-performing loans consist of non-accrual loans and loans that are 90 days or more past due and still accruing interest. Non-performing assets consist of non-performing loans and OREO.

### **OREO AND OTHER REPOSSESSED ASSETS**

Includes assets owned by the Company which are acquired either through foreclosure or default.

### **RENT-REGULATED APARTMENTS**

In New York City, where the vast majority of the properties securing our multi-family loans are located, the amount of rent that tenants may be charged on the apartments in certain buildings is restricted under certain rent-control and rent-stabilization laws. Rent-control laws apply to apartments in buildings that were constructed prior to February 1947. An apartment is said to be rent-controlled if the tenant has been living continuously in the apartment for a period of time beginning prior to July 1971. When a rent-controlled apartment is vacated, it typically becomes rent-stabilized. Rent-stabilized apartments are generally located in buildings with six or more units that were built between February 1947 and January 1974. Rent-controlled and -stabilized (together, rent-regulated) apartments tend to be more affordable to live in because of the applicable regulations, and buildings with a preponderance of such rent-regulated apartments are therefore less likely to experience vacancies in times of economic adversity.

### **REPURCHASE AGREEMENTS**

Repurchase agreements are contracts for the sale of securities owned or borrowed by the Banks with an agreement to repurchase those securities at an agreed-upon price and date. The Banks' repurchase agreements are primarily collateralized by GSE obligations and other mortgage-related securities, and are entered into with either the FHLBs or various brokerage firms.

### **SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION**

A bank holding company with total consolidated assets that average more than \$50 billion over the four most recent quarters is designated a Systemically Important Financial Institution under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

### **WHOLESALE BORROWINGS**



Refers to advances drawn by the Banks against their respective lines of credit with the FHLBs, their repurchase agreements with the FHLBs and various brokerage firms, and federal funds purchased.

**YIELD**

The interest income associated with interest-earning assets, typically expressed as a ratio of interest income to the average balance of interest-earning assets for a given period.

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**LIST OF ABBREVIATIONS AND ACRONYMS**

ADC - Acquisition, development, and construction loan	FHLB - Federal Home Loan Bank
ALCO - Asset and Liability Management Committee	FHLB-NY - Federal Home Loan Bank of New York
AMT - Alternative minimum tax	FOMC - Federal Open Market Committee
AmTrust - AmTrust Bank	FRB - Federal Reserve Board
AOCL - Accumulated other comprehensive loss	FRB-NY - Federal Reserve Bank of New York
ASC - Accounting Standards Codification	Freddie Mac - Federal Home Loan Mortgage Corporation
ASU - Accounting Standards Update	FTEs - Full-time equivalent employees
BOLI - Bank-owned life insurance	GAAP - U.S. generally accepted accounting principles
BP - Basis point(s)	GNMA - Government National Mortgage Association
C&I - Commercial and industrial loan	GSEs - Government-sponsored enterprises
CCAR - Comprehensive Capital Analysis and Review	HQLAs - High-quality liquid assets
CDs - Certificates of deposit	IRLCs - Interest rate lock commitments
CFPB - Consumer Financial Protection Bureau	LCR - Liquidity coverage ratio
CMOs - Collateralized mortgage obligations	LSA - Loss Share Agreements
CMT - Constant maturity treasury rate	LTV - Loan-to-value ratio
CPI - Consumer Price Index	MBS - Mortgage-backed securities
CPR - Constant prepayment rate	MSRs - Mortgage servicing rights
CRA - Community Reinvestment Act	NIM - Net interest margin
CRE - Commercial real estate loan	NOL - Net operating loss
Desert Hills - Desert Hills Bank	NPAs - Non-performing assets
DIF - Deposit Insurance Fund	NPLs - Non-performing loans
Dodd-Frank Act - Dodd-Frank Wall Street Reform and Consumer Protection Act	NPV - Net Portfolio Value
DSCR - Debt service coverage ratio	NYSDFS - New York State Department of Financial Services
EPS - Earnings per common share	NYSE - New York Stock Exchange
ERM - Enterprise Risk Management	OCC - Office of the Comptroller of the Currency
ESOP - Employee Stock Ownership Plan	OFAC - Office of Foreign Assets Control
	OREO - Other real estate owned
	OTTI - Other-than-temporary impairment

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Fannie Mae - Federal National Mortgage Association

FASB - Financial Accounting Standards Board

FDI Act - Federal Deposit Insurance Act

FDIC - Federal Deposit Insurance Corporation

PCI - Purchased credit-impaired loans

SEC - U.S. Securities and Exchange Commission

SIFI - Systemically Important Financial Institution

TDRs - Troubled debt restructurings

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(in thousands, except share data)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	(unaudited)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 2,680,772	\$ 2,528,169
<b>Securities:</b>		
Available-for-sale (\$1,232,077 and \$1,263,227 pledged, respectively)	3,391,952	3,531,427
Equity investments with readily determinable fair values, at fair value	32,069	
Total securities	3,424,021	3,531,427
Loans held for sale	31,402	35,258
Loans held for investment, net of deferred loan fees and costs	38,889,423	38,387,971
Less: Allowance for loan losses	(161,140)	(158,046)
Loans held for investment, net	38,728,283	38,229,925
Total loans, net	38,759,685	38,265,183
Federal Home Loan Bank stock, at cost	622,989	603,819
Premises and equipment, net	364,312	368,655
Goodwill	2,436,131	2,436,131
Mortgage servicing rights (\$2,575 and \$2,729 measured at fair value, respectively)	5,187	6,100
Bank-owned life insurance	965,655	967,173
Other real estate owned and other repossessed assets	15,458	16,400
Other assets	380,664	401,138
Total assets	\$ 49,654,874	\$ 49,124,195
<b>Liabilities and Stockholders Equity:</b>		
<b>Deposits:</b>		
Interest-bearing checking and money market accounts	\$ 12,633,937	\$ 12,936,301
Savings accounts	5,019,698	5,210,001
Certificates of deposit	9,063,320	8,643,646
Non-interest-bearing accounts	2,518,479	2,312,215
Total deposits	29,235,434	29,102,163
<b>Borrowed funds:</b>		
<b>Wholesale borrowings:</b>		
Federal Home Loan Bank advances	12,534,500	12,104,500

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Repurchase agreements	450,000	450,000
Total wholesale borrowings	12,984,500	12,554,500
Junior subordinated debentures	359,259	359,179
Total borrowed funds	13,343,759	12,913,679
Other liabilities	294,964	312,977
Total liabilities	42,874,157	42,328,819
Stockholders' equity:		
Preferred stock at par \$0.01 (5,000,000 shares authorized): Series A (515,000 shares issued and outstanding)	502,840	502,840
Common stock at par \$0.01 (900,000,000 shares authorized; 490,439,070 and 489,072,101 shares issued; and 490,379,532 and 488,490,352 shares outstanding, respectively)	4,904	4,891
Paid-in capital in excess of par	6,073,755	6,072,559
Retained earnings	255,777	237,868
Treasury stock, at cost (59,538 and 581,749 shares, respectively)	(777)	(7,615)
Accumulated other comprehensive loss, net of tax:		
Net unrealized gain on securities available for sale, net of tax of \$(3,354) and \$(27,961), respectively	8,050	39,188
Net unrealized loss on the non-credit portion of OTTI losses on securities, net of tax of \$2,517 and \$3,338, respectively	(6,042)	(5,221)
Net unrealized loss on pension and post-retirement obligations, net of tax of \$21,604 and \$32,121, respectively	(57,790)	(49,134)
Total accumulated other comprehensive loss, net of tax	(55,782)	(15,167)
Total stockholders' equity	6,780,717	6,795,376
Total liabilities and stockholders' equity	\$ 49,654,874	\$ 49,124,195

See accompanying notes to the consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Interest Income:</b>		
Mortgage and other loans	\$ 355,917	\$ 358,402
Securities and money market investments	48,408	40,717
Total interest income	404,325	399,119
<b>Interest Expense:</b>		
Interest-bearing checking and money market accounts	34,369	19,709
Savings accounts	7,221	6,810
Certificates of deposit	30,515	22,131
Borrowed funds	61,922	55,552
Total interest expense	134,027	104,202
Net interest income	270,298	294,917
Provision for losses on non-covered loans	9,571	1,787
Recovery of losses on covered loans		(5,795)
Net interest income after provision for (recovery of) loan losses	260,727	298,925
<b>Non-Interest Income:</b>		
Fee income	7,327	7,860
Bank-owned life insurance	6,804	6,337
Mortgage banking income		9,764
Net (loss) gain on securities	(466)	1,979
FDIC indemnification expense		(4,636)
Other	9,192	10,868
Total non-interest income	22,857	32,172
<b>Non-Interest Expense:</b>		
Operating expenses:		
Compensation and benefits	83,975	96,206
Occupancy and equipment	24,884	25,059

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General and administrative	30,248	45,524
Total operating expenses	139,107	166,789
Amortization of core deposit intangibles		154
Total non-interest expense	139,107	166,943
Income before income taxes	144,477	164,154
Income tax expense	37,925	60,197
Net income	\$ 106,552	\$ 103,957
Preferred stock dividends	8,207	
Net income available to common shareholders	\$ 98,345	\$ 103,957
Basic earnings per common share	\$ 0.20	\$ 0.21
Diluted earnings per common share	\$ 0.20	\$ 0.21
Net income	\$ 106,552	\$ 103,957
Other comprehensive (loss) income, net of tax:		
Change in net unrealized gain/loss on securities available for sale, net of tax of \$24,607 and \$(353), respectively	(31,138)	495
Change in the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of \$(821) and \$(13), respectively	(821)	19
Change in pension and post-retirement obligations, net of tax of \$(10,517) and \$(872), respectively	(8,656)	1,218
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of \$770		(1,078)
Total other comprehensive (loss) income, net of tax	(40,615)	654
Total comprehensive income, net of tax	\$ 65,937	\$ 104,611

See accompanying notes to the consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	<b>For the Three Months Ended March 31, 2018</b>
<b>Preferred Stock (Par Value: \$0.01):</b>	
Balance at beginning of year	\$ 502,840
Issuance of preferred stock (515,000 shares)	
Balance at end of period	502,840
<b>Common Stock (Par Value: \$0.01):</b>	
Balance at beginning of year	4,891
Shares issued for restricted stock awards (1,366,969 shares)	13
Balance at end of period	4,904
<b>Paid-in Capital in Excess of Par:</b>	
Balance at beginning of year	6,072,559
Shares issued for restricted stock awards, net of forfeitures	(8,566)
Compensation expense related to restricted stock awards	9,762
Balance at end of period	6,073,755
<b>Retained Earnings:</b>	
Balance at beginning of year	237,868
Net income	106,552
Dividends paid on common stock (\$0.17 per share)	(83,242)
Dividends paid on preferred stock (\$15.94 per share)	(8,207)
Effect of adopting ASU No. 2016-01	260
Effect of adopting ASU No. 2018-02	2,546
Balance at end of period	255,777
<b>Treasury Stock:</b>	
Balance at beginning of year	(7,615)
Purchase of common stock (126,483 shares)	(1,715)
Shares issued for restricted stock awards (648,694 shares)	8,553
Balance at end of period	(777)



<b>Accumulated Other Comprehensive Loss, Net of Tax:</b>	
Balance at beginning of year	(15,167)
Other comprehensive income, net of tax	(40,615)
Balance at end of period	(55,782)
Total stockholders' equity	\$ 6,780,717

See accompanying notes to the consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2018	2017
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 106,552	\$ 103,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,571	(4,008)
Depreciation	8,382	8,043
Amortization of discounts and premiums, net	(2,044)	(1,216)
Amortization of core deposit intangibles		154
Net gain on sales of securities		(1,979)
Gain on trading securities activity	(172)	
Net gain on sales of loans	(37)	(4,709)
Stock-based compensation	9,762	8,732
Deferred tax expense	3,175	23,693
Changes in operating assets and liabilities:		
Decrease in other assets	18,868	61,391
Decrease in other liabilities	(5,960)	(26,138)
Purchases of securities held for trading	(110,000)	
Proceeds from sales of securities held for trading	110,172	
Origination of loans held for sale		(560,186)
Proceeds from sales of loans originated for sale		762,365
<b>Net cash provided by operating activities</b>	<b>148,269</b>	<b>370,099</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from repayment of securities held to maturity		85,024
Proceeds from repayment of securities available for sale	346,614	33
Proceeds from sales of securities available for sale		139,002
Purchase of securities held to maturity		(13,030)
Purchase of securities available for sale	(292,927)	(84,000)
Redemption of Federal Home Loan Bank stock	12,330	34,641
Purchases of Federal Home Loan Bank stock	(31,500)	(21,651)
Proceeds from bank-owned life insurance	7,785	
Proceeds from sales of loans	31,528	214,596
Other changes in loans, net	(535,564)	(73,257)
Purchase of premises and equipment, net	(4,039)	(13,671)

<b>Net cash (used in) provided by investing activities</b>	(465,773)	267,687
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in deposits	133,271	(161,357)
Net increase (decrease) in short-term borrowed funds		(460,000)
Proceeds from long-term borrowed funds	1,950,000	
Repayments of long-term borrowed funds	(1,520,000)	
Net proceeds from issuance of preferred stock		503,116
Cash dividends paid on common stock	(83,242)	(82,967)
Cash dividends paid on preferred stock	(8,207)	
Payments relating to treasury shares received for restricted stock award tax payments	(1,715)	(10,132)
<b>Net cash provided by (used in) financing activities</b>	470,107	(211,340)
Net increase in cash and cash equivalents	152,603	426,446
Cash and cash equivalents at beginning of period	2,528,169	557,850
Cash and cash equivalents at end of period	\$ 2,680,772	\$ 984,296
<b>Supplemental information:</b>		
Cash paid for interest	\$ 131,160	\$ 102,821
Cash paid for income taxes	5,236	1
<b>Non-cash investing and financing activities:</b>		
Transfers to repossessed assets from loans	\$ 800	\$ 5,911
Transfer of loans from held for investment to held for sale	31,491	214,862
Shares issued for restricted stock awards	8,566	10,311
See accompanying notes to the consolidated financial statements.		

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**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Basis of Presentation**

***Organization***

New York Community Bancorp, Inc. (on a stand-alone basis, the Parent Company or, collectively with its subsidiaries, the Company) was organized under Delaware law on July 20, 1993 and is the holding company for New York Community Bank and New York Commercial Bank (hereinafter referred to as the Community Bank and the Commercial Bank, respectively, and collectively as the Banks). For the purpose of these Consolidated Financial Statements, the Community Bank and the Commercial Bank refer not only to the respective banks but also to their respective subsidiaries.

The Community Bank is the primary banking subsidiary of the Company, which was formerly known as Queens County Bancorp, Inc. Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Community Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company issued its initial offering of common stock (par value: \$0.01 per share) at a price of \$25.00 per share (\$0.93 per share on a split-adjusted basis, reflecting the impact of nine stock splits between 1994 and 2004). The Commercial Bank was established on December 30, 2005.

Reflecting its growth through acquisitions, the Community Bank currently operates 225 branches, two of which operate directly under the Community Bank name. The remaining 223 Community Bank branches operate through seven divisional banks: Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, and Roosevelt Savings Bank in New York; Garden State Community Bank in New Jersey; AmTrust Bank in Florida and Arizona; and Ohio Savings Bank in Ohio.

The Commercial Bank currently operates 30 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island (all in New York), including 18 branches that operate under the Atlantic Bank name.

***Basis of Presentation***

The following is a description of the significant accounting and reporting policies that the Company and its subsidiaries follow in preparing and presenting their consolidated financial statements, which conform to GAAP and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowances for loan losses; the evaluation of goodwill for impairment; and the evaluation of the need for a valuation allowance on the Company's deferred tax assets.

The accompanying consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company accounts and transactions are eliminated in consolidation. The Company currently has certain unconsolidated subsidiaries in the form of wholly-owned statutory business trusts, which were formed to issue guaranteed capital securities. See Note 7, Borrowed Funds, for additional information regarding these trusts.

**Note 2. Computation of Earnings per Common Share**

Basic EPS is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

Unvested stock-based compensation awards containing non-forfeitable rights to dividends paid on the Company's common stock are considered participating securities, and therefore are included in the two-class method for calculating EPS. Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends on the common stock. The Company grants restricted stock to certain employees under its stock-based compensation plan. Recipients receive cash dividends during the vesting periods of these awards, including on the unvested portion of such awards. Since these dividends are non-forfeitable, the unvested awards are considered participating securities and therefore have earnings allocated to them.

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The following table presents the Company's computation of basic and diluted EPS for the periods indicated:

(in thousands, except share and per share amounts)	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net income available to common shareholders	\$ 98,345	\$ 103,957
Less: Dividends paid on and earnings allocated to participating securities	(900)	(819)
<b>Earnings applicable to common stock</b>	<b>\$ 97,445</b>	<b>\$ 103,138</b>
Weighted average common shares outstanding	488,140,102	486,511,756
<b>Basic earnings per common share</b>	<b>\$ 0.20</b>	<b>\$ 0.21</b>
Earnings applicable to common stock	\$ 97,445	\$ 103,138
Weighted average common shares outstanding	488,140,102	486,511,756
Potential dilutive common shares		
<b>Total shares for diluted earnings per common share computation</b>	<b>488,140,102</b>	<b>486,511,756</b>
Diluted earnings per common share and common share equivalents	\$ 0.20	\$ 0.21

**Note 3. Reclassifications Out of Accumulated Other Comprehensive Loss**

(in thousands)	<b>For the Three Months Ended March 31, 2018</b>	
	Amount Reclassified from Accumulated Other Comprehensive Loss <sup>(1)</sup>	Affected Line Item in the Consolidated Statements of Operations and Comprehensive Income (Loss)
Details about		
Accumulated Other Comprehensive Loss		
Unrealized gains (losses) on debt securities available-for-sale	\$	Net gain on securities Income tax expense
	\$	Net gain on sales of securities, net of tax

Amortization of defined benefit pension plan items:

Past service liability	\$ 62	Included in the computation of net periodic (credit) expense <sup>(2)</sup>
Actuarial losses	(1,871)	Included in the computation of net periodic (credit) expense <sup>(2)</sup>
	(1,809)	Total before tax
	532	Tax benefit
	\$ (1,277)	Amortization of defined benefit pension plan items, net of tax
Total reclassifications for the period	\$ (1,277)	

(1) Amounts in parentheses indicate expense items.

(2) See Note 8, Pension and Other Post-Retirement Benefits, for additional information.

**Table of Contents****Note 4. Securities**

The following tables summarize the Company's portfolio of securities available for sale and equity investments with readily determinable fair values at March 31, 2018 and December 31, 2017:

(in thousands)	<b>March 31, 2018</b>			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
<b>Mortgage-Related Securities:</b>				
GSE certificates	\$ 1,966,476	\$ 20,565	\$ 15,864	\$ 1,971,177
GSE CMOs	537,621	7,425	3,459	541,587
<b>Total mortgage-related securities</b>	<b>\$ 2,504,097</b>	<b>\$ 27,990</b>	<b>\$ 19,323</b>	<b>\$ 2,512,764</b>
<b>Other Securities:</b>				
U. S. Treasury obligations	\$ 199,678	\$	\$ 248	\$ 199,430
GSE debentures	478,588	1,213	6,732	473,069
Corporate bonds	79,828	9,890		89,718
Municipal bonds	70,117	201	1,711	68,607
Capital trust notes	48,242	6,485	6,363	48,364
<b>Total other securities</b>	<b>\$ 876,453</b>	<b>\$ 17,789</b>	<b>\$ 15,054</b>	<b>\$ 879,188</b>
<b>Total securities available for sale <sup>(1)</sup></b>	<b>\$ 3,380,550</b>	<b>\$ 45,779</b>	<b>\$ 34,377</b>	<b>\$ 3,391,952</b>
<b>Equity securities:</b>				
Preferred stock	\$ 15,292	\$	\$ 49	\$ 15,243
Mutual funds and common stock <sup>(2)</sup>	16,874	402	450	16,826
<b>Total equity securities</b>	<b>\$ 32,166</b>	<b>\$ 402</b>	<b>\$ 499</b>	<b>\$ 32,069</b>
<b>Total securities</b>	<b>\$ 3,412,716</b>	<b>\$ 46,181</b>	<b>\$ 34,876</b>	<b>\$ 3,424,021</b>

(1) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At March 31, 2018, the non-credit portion of OTTI recorded in AOCL was \$8.6 million before taxes.

(2) Primarily consists of mutual funds that are CRA-qualified investments.

(in thousands)	<b>December 31, 2017</b>			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
<b>Mortgage-Related Securities:</b>				



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GSE certificates	\$ 2,023,677	\$ 46,364	\$ 1,199	\$ 2,068,842
GSE CMOs	536,284	14,446	826	549,904
Total mortgage-related securities	\$ 2,559,961	\$ 60,810	\$ 2,025	\$ 2,618,746
<b>Other Securities:</b>				
U. S. Treasury obligations	\$ 199,960	\$	\$ 62	\$ 199,898
GSE debentures	473,879	2,044	2,665	473,258
Corporate bonds	79,702	11,073		90,775
Municipal bonds	70,381	540	801	70,120
Capital trust notes	48,230	6,498	8,632	46,096
Preferred stock	15,292	142		15,434
Mutual funds and common stock <sup>(1)</sup>	16,874	487	261	17,100
Total other securities	\$ 904,318	\$ 20,784	\$ 12,421	\$ 912,681
Total securities available for sale <sup>(2)</sup>	\$ 3,464,279	\$ 81,594	\$ 14,446	\$ 3,531,427

(1) Primarily consists of mutual funds that are CRA-qualified investments.

(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At December 31, 2017, the non-credit portion of OTTI recorded in AOCL was \$8.6 million before taxes.

At March 31, 2018 and December 31, 2017, respectively, the Company had \$623.0 million and \$603.8 million of FHLB-NY stock, at cost. The Company maintains an investment in FHLB-NY stock partly in conjunction with its membership in the FHLB and partly related to its access to the FHLB funding it utilizes.

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The following table summarizes the gross proceeds and gross realized gains from the sale of available-for-sale securities during the three months ended March 31, 2018 and 2017:

(in thousands)	For the Three Months Ended	
	2018	March 31, 2017
Gross proceeds		\$ 139,002
Gross realized gains		1,979

In the following table, the beginning balance represents the credit loss component for debt securities on which OTTI occurred prior to January 1, 2018. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment).

(in thousands)	For the	
	Three Months Ended	
	March 31, 2018	
Beginning credit loss amount as of December 31, 2017	\$	196,333
Add: Initial other-than-temporary credit losses		
Subsequent other-than-temporary credit losses		
Amount previously recognized in AOCL		
Less: Realized losses for securities sold		
Securities intended or required to be sold		
Increase in cash flows on debt securities		
Ending credit loss amount as of March 31, 2018	\$	196,333

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The following table summarizes, by contractual maturity, the amortized cost of securities at March 31, 2018:

	Mortgage- Related Securities	Average Yield	U.S. Treasury and GSE Obligations	Average Yield	Average State, County and Municipal ( <sup>1</sup> )	Yield	Other Debt Securities ( <sup>2</sup> )	Average Yield	Fair Value
<i>(dollars in thousands)</i>									
Available-for-Sale Securities: ( <sup>3</sup> )									
Due within one year	\$		%\$ 199,678	1.70%	\$ 149	6.51%	\$		%\$ 199,581
Due from one to five years	950,910	3.37	6,950	3.84	292	6.63	48,548	3.74	1,019,714
Due from five to ten years	864,803	3.35	347,888	3.16			31,280	8.37	1,257,619
Due after ten years	688,384	3.09	123,750	3.23	69,676	2.88	48,242	4.02	915,038
Total securities available for sale	\$ 2,504,097	3.29%	\$ 678,266	2.75%	\$ 70,117	2.90%	\$ 128,070	4.98%	\$ 3,391,952

(1) Not presented on a tax-equivalent basis.

(2) Includes corporate bonds and capital trust notes.

(3) As equity securities have no contractual maturity, they have been excluded from this table.

The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of March 31, 2018:

(in thousands)	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Temporarily Impaired Securities:						
GSE certificates	\$ 876,096	\$ 14,756	\$ 19,848	\$ 1,108	\$ 895,944	\$ 15,864
GSE debentures	378,983	6,732			378,983	6,732
GSE CMOs	199,397	3,459			199,397	3,459
U. S. Treasury obligations	199,430	248			199,430	248
Municipal bonds	10,901	469	40,156	1,242	51,057	1,711
Capital trust notes			37,385	6,363	37,385	6,363
Equity securities	16,676	52	11,359	447	28,035	499
Total temporarily impaired securities	\$ 1,681,483	\$ 25,716	\$ 108,748	\$ 9,160	\$ 1,790,231	\$ 34,876



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The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2017:

(in thousands)	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Temporarily Impaired Available-for-Sale Securities:</b>						
GSE certificates	\$ 232,546	\$ 535	\$ 20,440	\$ 664	\$ 252,986	\$ 1,199
GSE debentures	333,045	2,665			333,045	2,665
GSE CMOs	118,694	826			118,694	826
U. S. Treasury obligations	199,898	62			199,898	62
Municipal bonds	11,169	259	41,054	542	52,223	801
Capital trust notes			35,105	8,632	35,105	8,632
Equity securities			11,545	261	11,545	261
<b>Total temporarily impaired available-for-sale securities</b>	<b>\$ 895,352</b>	<b>\$ 4,347</b>	<b>\$ 108,144</b>	<b>\$ 10,099</b>	<b>\$ 1,003,496</b>	<b>\$ 14,446</b>

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An OTTI loss on impaired debt securities must be fully recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss occurs, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts of impairment relating to factors other than credit losses are recorded in AOCL.

At March 31, 2018, the Company had unrealized losses on certain GSE obligations, U.S. Treasury obligations, municipal bonds, capital trust notes, and equity securities. The unrealized losses on the Company's GSE obligations, U.S. Treasury obligations, municipal bonds, and capital trust notes at March 31, 2018 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. These securities are not expected to be settled at a price that is less than the amortized cost of the Company's investment.

The Company reviews quarterly financial information related to its investments in capital trust notes, as well as other information that is released by each of the issuers of such notes, to determine their continued creditworthiness. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and potential OTTI losses in the future. Future events that could trigger material unrecoverable declines in the fair values of the Company's investments, and thus result in potential OTTI losses, include, but are not limited to, government intervention; deteriorating asset quality and credit metrics; significantly higher levels of default and loan loss provisions; losses in value on the underlying collateral; net operating losses; and illiquidity in the financial markets.

The Company considers a decline in the fair value of equity securities to be other than temporary if the Company does not expect to recover the entire amortized cost basis of the security. The unrealized losses on the Company's equity securities at March 31, 2018 were caused by market volatility. The Company evaluated the near-term prospects of recovering the fair value of these securities, together with the severity and duration of impairment to date, and determined that they were not other-than-temporarily impaired. Nonetheless, it is possible that these equity securities will perform worse than is currently expected, which could lead to adverse changes in their fair value, or to the failure of the securities to fully recover in value as currently anticipated by management. Either event could cause the Company to record an OTTI loss in a future period. Events that could trigger a material decline in the fair value of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolio of the issuer in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuer.

The investment securities designated as having a continuous loss position for twelve months or more at both March 31, 2018 and December 31, 2017 consisted of six agency mortgage-related securities, five capital trust notes, two municipal bonds, and one mutual fund. At March 31, 2018, the fair value of securities having a continuous loss position for twelve months or more was 7.8% below the collective amortized cost of \$117.9 million. At December 31, 2017, the fair value of such securities was 8.5% below the collective amortized cost of \$118.2 million. At March 31, 2018 and December 31, 2017, the combined market value of the respective securities represented unrealized losses of \$9.2 million and \$10.1 million, respectively.

**Table of Contents****Note 5: Loans**

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

(dollars in thousands)	March 31, 2018		December 31, 2017	
	Amount	Percent of Loans Held for Investment	Amount	Percent of Loans Held for Investment
<b>Loans Held for Investment:</b>				
<b>Mortgage Loans:</b>				
Multi-family	\$ 28,656,234	73.74%	\$ 28,074,709	73.19%
Commercial real estate	7,252,889	18.66	7,322,226	19.09
One-to-four family	465,704	1.20	477,228	1.24
Acquisition, development, and construction	441,767	1.14	435,825	1.14
<b>Total mortgage loans held for investment</b>	<b>\$ 36,816,594</b>	<b>94.74</b>	<b>\$ 36,309,988</b>	<b>94.66</b>
<b>Other Loans:</b>				
Commercial and industrial	1,377,766	3.55	1,377,964	3.59
Lease financing, net of unearned income of \$61,251 and \$65,041, respectively	657,264	1.69	662,610	1.73
<b>Total commercial and industrial loans <sup>(1)</sup></b>	<b>2,035,030</b>	<b>5.24</b>	<b>2,040,574</b>	<b>5.32</b>
Other	8,230	0.02	8,460	0.02
<b>Total other loans held for investment</b>	<b>2,043,260</b>	<b>5.26</b>	<b>2,049,034</b>	<b>5.34</b>
<b>Total loans held for investment</b>	<b>\$ 38,859,854</b>	<b>100.00%</b>	<b>\$ 38,359,022</b>	<b>100.00%</b>
Net deferred loan origination costs	29,569		28,949	
Allowance for losses on non-covered loans	(161,140)		(158,046)	
<b>Loans held for investment, net</b>	<b>\$ 38,728,283</b>		<b>\$ 38,229,925</b>	
Loans held for sale	31,402		35,258	
<b>Total loans, net</b>	<b>\$ 38,759,685</b>		<b>\$ 38,265,183</b>	

- (1) Includes specialty finance loans of \$1.5 billion at March 31, 2018 and December 31, 2017, and other C&I loans of \$522.0 million and \$500.8 million, respectively, at March 31, 2018 and December 31, 2017.

**Loans**

*Loans Held for Investment*

The majority of the loans the Company originates for investment are multi-family loans, most of which are collateralized by non-luxury apartment buildings in New York City with rent-regulated units and below-market rents. In addition, the Company originates CRE loans, most of which are collateralized by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties that are located in New York City and on Long Island.

To a lesser extent, the Company also originates one-to-four family loans, ADC loans, and C&I loans, for investment. One-to-four family loans held for investment were originated through the Company's mortgage banking operation and primarily consisted of jumbo prime adjustable rate mortgages made to borrowers with a solid credit history.

ADC loans are primarily originated for multi-family and residential tract projects in New York City and on Long Island. C&I loans consist of asset-based loans, equipment loans and leases, and dealer floor-plan loans (together, specialty finance loans and leases) that generally are made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide; and other C&I loans that primarily are made to small and mid-size businesses in Metro New York. Other C&I loans are typically made for working capital, business expansion, and the purchase of machinery and equipment.

The repayment of multi-family and CRE loans generally depends on the income produced by the underlying properties which, in turn, depends on their successful operation and management. To mitigate the potential for credit losses, the Company underwrites its loans in accordance with credit standards it considers to be prudent, looking first at the consistency of the cash flows being produced by the underlying property. In addition, multi-family buildings, CRE properties, and ADC projects are inspected as a prerequisite to approval, and independent appraisers, whose appraisals are carefully reviewed by the Company's in-house appraisers, perform appraisals on the collateral properties. In many cases, a second independent appraisal review is performed.



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To further manage its credit risk, the Company's lending policies limit the amount of credit granted to any one borrower and typically require conservative debt service coverage ratios and loan-to-value ratios. Nonetheless, the ability of the Company's borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy. Accordingly, there can be no assurance that its underwriting policies will protect the Company from credit-related losses or delinquencies.

ADC loans typically involve a higher degree of credit risk than loans secured by improved or owner-occupied real estate. Accordingly, borrowers are required to provide a guarantee of repayment and completion, and loan proceeds are disbursed as construction progresses, as certified by in-house inspectors or third-party engineers. The Company seeks to minimize the credit risk on ADC loans by maintaining conservative lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the ADC loan portfolio, and could result in losses or delinquencies. In addition, the Company utilizes the same stringent appraisal process for ADC loans as it does for its multi-family and CRE loans.

To minimize the risk involved in specialty finance lending and leasing, the Company participates in syndicated loans that are brought to it, and equipment loans and leases that are assigned to it, by a select group of nationally recognized sources who have had long-term relationships with its experienced lending officers. Each of these credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancelable lease. To further minimize the risk involved in specialty finance lending and leasing, each transaction is re-underwritten. In addition, outside counsel is retained to conduct a further review of the underlying documentation.

To minimize the risks involved in other C&I lending, the Company underwrites such loans on the basis of the cash flows produced by the business; requires that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and typically requires personal guarantees. However, the capacity of a borrower to repay such a C&I loan is substantially dependent on the degree to which the 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 results of operations of the business.

Included in non-covered loans held for investment at March 31, 2018 were loans of \$56.8 million to officers, directors, and their related interests and parties. There were no loans to principal shareholders at that date.

### *Loans Held for Sale*

At March 31, 2018 the Company had loans held for sale of \$31.4 million as compared to \$35.3 million at December 31, 2017. At March 31, 2018, loans held for sale consisted of \$21.9 million of one-to-four family loans and a \$9.5 million CRE loan. At December 31, 2017, all loans held for sale were one-to-four family loans.

### *Asset Quality*

The following table presents information regarding the quality of the Company's loans held for investment at March 31, 2018:

(in thousands)	Loans 90 Days or More Delinquent					
	Loans 30-89 Days Past Due <sup>(1)</sup>	Non- Accrual Loans <sup>(1)</sup>	and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	\$	\$ 11,881	\$	\$ 11,881	\$ 28,644,353	\$ 28,656,234
Commercial real estate	3,191	13,611		16,802	7,236,087	7,252,889
One-to-four family	397	1,949		2,346	463,358	465,704
Acquisition, development, and construction					441,767	441,767
Commercial and industrial <sup>(1) (2)</sup>	6,736	45,941		52,677	1,982,353	2,035,030
Other	27	4		31	8,199	8,230
<b>Total</b>	<b>\$ 10,351</b>	<b>\$ 73,386</b>	<b>\$</b>	<b>\$ 83,737</b>	<b>\$ 38,776,117</b>	<b>\$ 38,859,854</b>

(1) Includes \$6.7 million and \$44.8 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.

(2) Includes lease financing receivables, all of which were current.

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The following table presents information regarding the quality of the Company's loans held for investment at December 31, 2017:

(in thousands)	Loans 90 Days or More Delinquent						Total Loans Receivable
	Loans 30-89 Days Past Due <sup>(1)</sup>	Non- Accrual Loans (1)	and Still Accruing Interest	Total Past Due Loans	Current Loans		
Multi-family	\$ 1,258	\$ 11,078	\$	\$ 12,336	\$ 28,062,373	\$ 28,074,709	
Commercial real estate	13,227	6,659		19,886	7,302,340	7,322,226	
One-to-four family	585	1,966		2,551	474,677	477,228	
Acquisition, development, and construction		6,200		6,200	429,625	435,825	
Commercial and industrial <sup>(1) (2)</sup>	2,711	47,768		50,479	1,990,095	2,040,574	
Other	8	11		19	8,441	8,460	
<b>Total</b>	<b>\$ 17,789</b>	<b>\$ 73,682</b>	<b>\$</b>	<b>\$ 91,471</b>	<b>\$ 38,267,551</b>	<b>\$ 38,359,022</b>	

(1) Includes \$2.7 million and \$46.7 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.

(2) Includes lease financing receivables, all of which were current.

The following table summarizes the Company's portfolio of loans held for investment by credit quality indicator at March 31, 2018:

(in thousands)	Mortgage Loans				Other Loans			
	Multi-Family	Commercial Real Estate	One-to-Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial <sup>(1)</sup>	Other	Total Other Loans
Credit Quality Indicator:								
Pass	\$ 28,409,201	\$ 7,193,256	\$ 460,080	\$ 357,174	\$ 36,419,711	\$ 1,923,271	\$ 8,226	\$ 1,931,497
Special mention	190,762	45,379	3,675	75,041	314,857	20,358		20,358
Substandard	56,271	14,254	1,949	9,552	82,026	91,401	4	91,405
Doubtful								
<b>Total</b>	<b>\$ 28,656,234</b>	<b>\$ 7,252,889</b>	<b>\$ 465,704</b>	<b>\$ 441,767</b>	<b>\$ 36,816,594</b>	<b>\$ 2,035,030</b>	<b>\$ 8,230</b>	<b>\$ 2,043,260</b>

(1) Includes lease financing receivables, all of which were classified as Pass.

The following table summarizes the Company's portfolio of loans held for investment by credit quality indicator at December 31, 2017:

(in thousands)	Mortgage Loans				Other Loans			
	Multi-Family	Commercial Real Estate	One-to-Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial <sup>(1)</sup>	Other	Total Other Loans
Credit Quality Indicator:								
Pass	\$ 27,874,330	\$ 7,255,100	\$ 471,571	\$ 344,040	\$ 35,945,041	\$ 1,925,527	\$ 8,449	\$ 1,933,976
Special mention	125,752	47,123	3,691	76,033	252,599	20,883		20,883
Substandard	74,627	20,003	1,966	15,752	112,348	94,164	11	94,175
Doubtful								
Total	\$ 28,074,709	\$ 7,322,226	\$ 477,228	\$ 435,825	\$ 36,309,988	\$ 2,040,574	\$ 8,460	\$ 2,049,034

(1) Includes lease financing receivables, all of which were classified as Pass.

The preceding classifications are the most current ones available and generally have been updated within the last twelve months. In addition, they follow regulatory guidelines and can generally be described as follows: pass loans are of satisfactory quality; special mention loans have potential weaknesses that deserve management's close attention; substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged (these loans have a well-defined weakness and there is a possibility that the Company will sustain some loss); and doubtful loans, based on existing circumstances, have weaknesses that make collection or liquidation in full highly questionable and improbable. In addition, one-to-four family loans are classified based on the duration of the delinquency.

**Table of Contents***Troubled Debt Restructurings*

The Company is required to account for certain held-for-investment loan modifications and restructurings as TDRs. In general, a modification or restructuring of a loan constitutes a TDR if the Company grants a concession to a borrower experiencing financial difficulty. A loan modified as a TDR generally is placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which requires, among other things, that the borrower demonstrate performance according to the restructured terms for a period of at least six consecutive months.

In an effort to proactively manage delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, extension of maturity dates, and forbearance agreements. As of March 31, 2018, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to \$44.6 million; loans on which forbearance agreements were reached amounted to \$1.8 million.

The following table presents information regarding the Company's TDRs as of March 31, 2018 and December 31, 2017:

(in thousands)	March 31, 2018			December 31, 2017		
	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Loan Category:						
Multi-family	\$ 820	\$ 7,607	\$ 8,427	\$ 824	\$ 8,061	\$ 8,885
Commercial real estate		365	365		368	368
One-to-four family		1,053	1,053		1,066	1,066
Acquisition, development, and construction	9,552		9,552	8,652		8,652
Commercial and industrial		26,992	26,992	177	26,408	26,585
<b>Total</b>	<b>\$ 10,372</b>	<b>\$ 36,017</b>	<b>\$ 46,389</b>	<b>\$ 9,653</b>	<b>\$ 35,903</b>	<b>\$ 45,556</b>

The eligibility of a borrower for work-out concessions of any nature depends upon the facts and circumstances of each loan, which may change from period to period, and involves judgment by Company personnel regarding the likelihood that the concession will result in the maximum recovery for the Company.

The financial effects of the Company's TDRs for the three months ended March 31, 2018 and 2017 are summarized as follows:

(dollars in thousands)	For the Three Months Ended March 31, 2018							
	Pre-Modification		Post-Modification		Weighted Average Interest Rate		Charge-off Amount	Capitalized Interest
	Number of Loans	Recorded Investment	Recorded Investment	Pre-Modification	Post-Modification			
Loan Category:	1	\$ 900	\$ 900	4.50%	4.50%	\$	\$	

Acquisition, development,  
and construction

Commercial and industrial	6	3,166	1,754	3.28	3.21	1,318	
Total	7	\$ 4,066	\$ 2,654			\$ 1,318	\$

For the Three Months Ended March 31, 2017

Weighted Average

Interest

Rate

(dollars in thousands)	Pre-Modification Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Weighted Average Interest Rate		Charge-off Amount	Capitalized Interest
				Pre-Modification	Post-Modification		
Loan Category:							
One-to-four family	1	\$ 264	\$ 339	6.00%	2.63%	\$	\$ 5
Commercial and industrial	17	7,998	4,745	3.30	3.46	3,280	
Total	18	\$ 8,262	\$ 5,084			\$ 3,280	\$ 5

At March 31, 2018, eleven C&I loans, in the amount of \$2.9 million that had been modified as a TDR during the twelve months ended at that date were in payment default.

The Company does not consider a payment to be in default when the loan is in forbearance, or otherwise granted a delay of payment, when the agreement to forebear or allow a delay of payment is part of a modification.

Subsequent to the modification, the loan is not considered to be in default until payment is contractually past due in accordance with the modified terms. However, the Company does consider a loan with multiple modifications or forbearance periods to be in default, and would also consider a loan to be in default if the borrower were in bankruptcy or if the loan were partially charged off subsequent to modification.

**Table of Contents****Note 6. Allowance for Loan Losses**

The following tables provide additional information regarding the Company's allowance for loan losses based upon the method of evaluating loan impairment:

(in thousands)	<b>Mortgage</b>	<b>Other</b>	<b>Total</b>
<b>Allowances for Loan Losses at March 31, 2018:</b>			
Loans individually evaluated for impairment	\$	\$ 40	\$ 40
Loans collectively evaluated for impairment	129,135	31,965	161,100
<b>Total</b>	<b>\$ 129,135</b>	<b>\$ 32,005</b>	<b>\$ 161,140</b>

(in thousands)	<b>Mortgage</b>	<b>Other</b>	<b>Total</b>
<b>Allowances for Loan Losses at December 31, 2017:</b>			
Loans collectively evaluated for impairment	\$ 128,275	\$ 29,771	\$ 158,046

The following tables provide additional information regarding the methods used to evaluate the Company's loan portfolio for impairment:

(in thousands)	<b>Mortgage</b>	<b>Other</b>	<b>Total</b>
<b>Loans Receivable at March 31, 2018:</b>			
Loans individually evaluated for impairment	\$ 22,555	\$ 46,805	\$ 69,360
Loans collectively evaluated for impairment	36,794,039	1,996,455	38,790,494
<b>Total</b>	<b>\$ 36,816,594</b>	<b>\$ 2,043,260</b>	<b>\$ 38,859,854</b>

(in thousands)	<b>Mortgage</b>	<b>Other</b>	<b>Total</b>
<b>Loans Receivable at December 31, 2017:</b>			
Loans individually evaluated for impairment	\$ 31,747	\$ 48,810	\$ 80,557
Loans collectively evaluated for impairment	36,278,241	2,000,224	38,278,465
<b>Total</b>	<b>\$ 36,309,988</b>	<b>\$ 2,049,034</b>	<b>\$ 38,359,022</b>

**Allowance for Loan Losses**

The following table summarizes activity in the allowance for loan losses for the periods indicated:

(in thousands)	Mortgage	<b>For the Three Months Ended March 31,</b>			Mortgage	Other	Total
		<b>2018</b>	<b>Total</b>	<b>2017<sup>(1)</sup></b>			
		Other	Total				

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Balance, beginning of period	\$ 128,275	\$ 29,771	\$ 158,046	\$ 125,416	\$ 32,874	\$ 158,290
Charge-offs	(5,411)	(1,580)	(6,991)		(5,830)	(5,830)
Recoveries	110	404	514	115	88	203
Provision for (recovery of) non-covered loan losses	6,161	3,410	9,571	(3,679)	5,466	1,787
Balance, end of period	\$ 129,135	\$ 32,005	\$ 161,140	\$ 121,852	\$ 32,598	\$ 154,450

(1) Represents allowance for losses on non-covered loans, excluding PCI loans.



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The following table presents additional information about the Company's impaired loans at March 31, 2018:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Impaired loans with no related allowance:</b>					
Multi-family	\$ 8,433	\$ 11,130	\$	\$ 8,662	\$ 122
Commercial real estate	2,620	7,735		3,879	3
One-to-four family	1,949	2,055		1,958	12
Acquisition, development, and construction	9,552	10,452		12,652	139
Other	46,766	104,106		47,788	725
<b>Total impaired loans with no related allowance</b>	<b>\$ 69,320</b>	<b>\$ 135,478</b>	<b>\$</b>	<b>\$ 74,939</b>	<b>\$ 1,001</b>
<b>Impaired loans with an allowance recorded:</b>					
Multi-family	\$	\$	\$	\$	\$
Commercial real estate					
One-to-four family					
Acquisition, development, and construction					
Other	40	40	40	20	3
<b>Total impaired loans with an allowance recorded</b>	<b>\$ 40</b>	<b>\$ 40</b>	<b>\$ 40</b>	<b>\$ 20</b>	<b>\$ 3</b>
<b>Total impaired loans:</b>					
Multi-family	\$ 8,433	\$ 11,130	\$	\$ 8,662	\$ 122
Commercial real estate	2,620	7,735		3,879	3
One-to-four family	1,949	2,055		1,958	12
Acquisition, development, and construction	9,552	10,452		12,652	139
Other	46,806	104,146	40	47,808	728
<b>Total impaired loans</b>	<b>\$ 69,360</b>	<b>\$ 135,518</b>	<b>\$ 40</b>	<b>\$ 74,959</b>	<b>\$ 1,004</b>

The following table presents additional information about the Company's impaired loans at December 31, 2017:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Impaired loans with no related allowance:</b>					
Multi-family	\$ 8,892	\$ 11,470	\$	\$ 9,554	\$ 495
Commercial real estate	5,137	10,252		3,522	92
One-to-four family	1,966	2,072		2,489	50
Acquisition, development, and construction	15,752	25,952		10,976	575
Other	48,810	104,901		43,074	2,200

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Total impaired loans with no related allowance	\$ 80,557	\$ 154,647	\$	\$ 69,615	\$ 3,412
Impaired loans with an allowance recorded:					
Multi-family	\$	\$	\$	\$	\$
Commercial real estate					
One-to-four family					
Acquisition, development, and construction					
Other				314	
Total impaired loans with an allowance recorded	\$	\$	\$	\$ 314	\$
Total impaired loans:					
Multi-family	\$ 8,892	\$ 11,470	\$	\$ 9,554	\$ 495
Commercial real estate	5,137	10,252		3,522	92
One-to-four family	1,966	2,072		2,489	50
Acquisition, development, and construction	15,752	25,952		10,976	575
Other	48,810	104,901		43,388	2,200
Total impaired loans	\$ 80,557	\$ 154,647	\$	\$ 69,929	\$ 3,412

**Table of Contents****Note 7. Borrowed Funds**

The following table summarizes the Company's borrowed funds at the dates indicated:

(in thousands)	March 31, 2018	December 31, 2017
<b>Wholesale Borrowings:</b>		
FHLB advances	\$ 12,534,500	\$ 12,104,500
Repurchase agreements	450,000	450,000
 Total wholesale borrowings	 \$ 12,984,500	 \$ 12,554,500
Junior subordinated debentures	359,259	359,179
 Total borrowed funds	 \$ 13,343,759	 \$ 12,913,679

The following table summarizes the Company's repurchase agreements accounted for as secured borrowings at March 31, 2018:

(in thousands)	<b>Remaining Contractual Maturity of the Agreements</b>			
	Overnight and Continuous	Up to 30 Days	30 90 Days	Greater than 90 Days
GSE obligations	\$	\$ 250,000	\$	\$ 200,000

At March 31, 2018 and December 31, 2017, the Company had \$359.3 million and \$359.2 million, respectively, of outstanding junior subordinated deferrable interest debentures (junior subordinated debentures) held by statutory business trusts (the Trusts) that issued guaranteed capital securities.

The Trusts are accounted for as unconsolidated subsidiaries, in accordance with GAAP. The proceeds of each issuance were invested in a series of junior subordinated debentures of the Company and the underlying assets of each statutory business trust are the relevant debentures. The Company has fully and unconditionally guaranteed the obligations under each trust's capital securities to the extent set forth in a guarantee by the Company to each trust. The Trusts' capital securities are each subject to mandatory redemption, in whole or in part, upon repayment of the debentures at their stated maturity or earlier redemption.

The following junior subordinated debentures were outstanding at March 31, 2018:

Issuer	Interest Rate of Capital Securities	Junior Subordinated Debentures Amount Outstanding	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
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and  
Debentures

(dollars in thousands)

New York Community Capital Trust V (BONUSES <sup>SM</sup> Units)	6.000%	\$ 145,333	\$ 138,982	Nov. 4, 2002	Nov. 1, 2051	Nov. 4, 2007 <sup>(1)</sup>
New York Community Capital Trust X	3.725	123,712	120,000	Dec. 14, 2006	Dec. 15, 2036	Dec. 15, 2011 <sup>(2)</sup>
PennFed Capital Trust III	5.375	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008 <sup>(2)</sup>
New York Community Capital Trust XI	3.958	59,286	57,500	April 16, 2007	June 30, 2037	June 30, 2012 <sup>(2)</sup>
Total junior subordinated debentures		\$ 359,259	\$ 346,482			

(1) Callable subject to certain conditions as described in the prospectus filed with the SEC on November 4, 2002.

(2) Callable from this date forward.

**Table of Contents****Note 8. Pension and Other Post-Retirement Benefits**

The following table sets forth certain disclosures for the Company's pension and post-retirement plans for the periods indicated:

(in thousands)	For the Three Months Ended March 31,			
	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense: <sup>(1)</sup>				
Interest cost	\$ 1,271	\$ 128	\$ 1,404	\$ 144
Expected return on plan assets	(4,035)		(4,073)	
Amortization of prior-service costs		(62)		(62)
Amortization of net actuarial loss	1,795	76	2,053	68
Net periodic (credit) expense	\$ (969)	\$ 142	\$ (616)	\$ 150

(1) Amounts are included in G&A expense on the Consolidated Statements of Income and Comprehensive Income. The Company expects to contribute \$1.3 million to its post-retirement plan to pay premiums and claims for the fiscal year ending December 31, 2018. The Company does not expect to make any contributions to its pension plan in 2018.

**Note 9. Stock-Based Compensation**

At March 31, 2018, the Company had a total of 4,798,208 shares available for grants as options, restricted stock, or other forms of related rights under the New York Community Bancorp, Inc. 2012 Stock Incentive Plan, which was approved by the Company's shareholders at its Annual Meeting on June 7, 2012. The Company granted 2,420,523 shares of restricted stock during the three months ended March 31, 2018. The shares had an average fair value of \$13.61 per share on the date of grant and a vesting period of five years. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period and totaled \$9.8 million and \$8.7 million for the three months ended March 31, 2018 and 2017, respectively.

The following table provides a summary of activity with regard to restricted stock awards in the three months ended March 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	5,574,167	\$ 15.38
Granted	2,420,523	13.61
Vested	(615,482)	15.30
Canceled	(72,380)	14.92

Unvested at end of period	7,306,828	14.80
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As of March 31, 2018, unrecognized compensation cost relating to unvested restricted stock totaled \$100.9 million. This amount will be recognized over a remaining weighted average period of 3.6 years.

**Note 10. Fair Value Measurements**

GAAP sets forth a definition of fair value, establishes a consistent framework for measuring fair value, and requires disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. GAAP also clarifies that fair value is an exit price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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Level 3 Inputs to the valuation methodology are significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants use in pricing an asset or liability. A financial instrument's categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, and that were included in the Company's Consolidated Statements of Condition at those dates:

	Fair Value Measurements at March 31, 2018				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments <sup>(1)</sup>	
(in thousands)					
<b>Assets:</b>					
Mortgage-Related Securities Available for Sale:					
GSE certificates	\$	\$ 1,971,177	\$	\$	\$ 1,971,177
GSE CMOs		541,587			541,587
<b>Total mortgage-related securities</b>	<b>\$</b>	<b>\$ 2,512,764</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,512,764</b>
Other Securities Available for Sale:					
U. S. Treasury Obligations	\$ 199,430	\$	\$	\$	\$ 199,430
GSE debentures		473,069			473,069
Corporate bonds		89,718			89,718
Municipal bonds		68,607			68,607
Capital trust notes		48,364			48,364
<b>Total other securities</b>	<b>\$ 199,430</b>	<b>\$ 679,758</b>	<b>\$</b>	<b>\$</b>	<b>\$ 879,188</b>
<b>Total securities available for sale</b>	<b>\$ 199,430</b>	<b>\$ 3,192,522</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3,391,952</b>
Equity securities:					
Preferred stock	\$ 15,243	\$	\$	\$	\$ 15,243
Mutual funds and common stock		16,826			16,826
<b>Total equity securities</b>	<b>\$ 15,243</b>	<b>\$ 16,826</b>	<b>\$</b>	<b>\$</b>	<b>\$ 32,069</b>
<b>Total securities</b>	<b>\$ 214,673</b>	<b>\$ 3,209,348</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3,424,021</b>
<b>Other Assets:</b>					
Loans held for sale	\$	\$ 31,402	\$	\$	\$ 31,402

Mortgage servicing rights	2,575	2,575
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**Table of Contents****Fair Value Measurements at December 31, 2017**

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments <sup>(1)</sup>	Total Fair Value
<b>Assets:</b>					
<b>Mortgage-Related Securities Available for Sale:</b>					
GSE certificates	\$	\$ 2,068,842	\$	\$	\$ 2,068,842
GSE CMOs		549,904			549,904
<b>Total mortgage-related securities</b>	<b>\$</b>	<b>\$ 2,618,746</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,618,746</b>
<b>Other Securities Available for Sale:</b>					
U. S. Treasury Obligations	\$ 199,898	\$	\$	\$	\$ 199,898
GSE debentures		473,258			473,258
Corporate bonds		90,775			90,775
Municipal bonds		70,120			70,120
Capital trust notes		46,096			46,096
Preferred stock	15,434				15,434
Mutual funds and common stock		17,100			17,100
<b>Total other securities</b>	<b>\$ 215,332</b>	<b>\$ 697,349</b>	<b>\$</b>	<b>\$</b>	<b>\$ 912,681</b>
<b>Total securities available for sale</b>	<b>\$ 215,332</b>	<b>\$ 3,316,095</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3,531,427</b>
<b>Other Assets:</b>					
Loans held for sale	\$	\$ 35,258	\$	\$	\$ 35,258
Mortgage servicing rights			2,729		2,729

(1) Includes cash collateral received from, and paid to, counterparties.

(2) Includes \$1.9 million to purchase Treasury options.

The Company reviews and updates the fair value hierarchy classifications for its assets on a quarterly basis. Changes from one quarter to the next that are related to the observability of inputs for a fair value measurement may result in a reclassification from one hierarchy level to another.

A description of the methods and significant assumptions utilized in estimating the fair values of securities follows:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and exchange-traded securities.

If quoted market prices are not available for a specific security, then fair values are estimated by using pricing models. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to observable

market information, models incorporate transaction details such as maturity and cash flow assumptions. Securities valued in this manner would generally be classified within Level 2 of the valuation hierarchy, and primarily include such instruments as mortgage-related and corporate debt securities.

Periodically, the Company uses fair values supplied by independent pricing services to corroborate the fair values derived from the pricing models. In addition, the Company reviews the fair values supplied by independent pricing services, as well as their underlying pricing methodologies, for reasonableness. The Company challenges pricing service valuations that appear to be unusual or unexpected.

The Company carries loans held for sale at fair value. The fair value of loans held for sale is based on an exit price, representing the amount that would be received when selling an asset in an orderly transaction between market participants. Loans held for sale are classified within Level 2 of the valuation hierarchy.

MSRs do not trade in an active open market with readily observable prices. The Company bases the fair value of its MSRs on the present value of estimated future net servicing income cash flows, utilizing a third-party valuation specialist. The specialist estimates future net servicing income cash flows with assumptions that market participants would use to estimate fair value, including estimates of prepayment speeds, discount rates, default rates, refinance rates, servicing costs, escrow account

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earnings, contractual servicing fee income, and ancillary income. The Company periodically adjusts the underlying inputs and assumptions to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. MSR fair value measurements use significant unobservable inputs and, accordingly, are classified within Level 3.

While the Company believes its valuation methods are appropriate, and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair values of certain financial instruments could result in different estimates of fair values at a reporting date.

***Fair Value Option******Loans Held for Sale***

The Company has elected the fair value option for its loans held for sale. These loans held for sale consist of one-to-four family and a \$9.5 million CRE mortgage loan, which was 90 days or more past due at March 31, 2018.

The following table reflects the difference between the fair value carrying amount of loans held for sale, for which the Company has elected the fair value option, and the unpaid principal balance:

	March 31, 2018			December 31, 2017		
	Fair Value Carrying Amount	Aggregate Unpaid Principal	Fair Value Carrying Amount Less Aggregate Unpaid Principal	Fair Value Carrying Amount	Aggregate Unpaid Principal	Fair Value Carrying Amount Less Aggregate Unpaid Principal
(in thousands)						
Loans held for sale	\$ 31,402	\$ 36,498	\$ (5,096)	\$ 35,258	\$ 34,563	\$ 695

***Gains and Losses Included in Income for Assets Where the Fair Value Option Has Been Elected***

The assets accounted for under the fair value option are initially measured at fair value. Gains and losses from the initial measurement and subsequent changes in fair value are recognized in earnings. The following table presents the changes in fair value related to initial measurement, and the subsequent changes in fair value included in earnings, for MSRs for the periods indicated:

	(Loss) Gain Included in Income from Changes in Fair Value <sup>(1)</sup> For the Three Months Ended March 31,	
	2018	2017
(in thousands)		
Mortgage servicing rights	\$ (154)	\$ (2,789)

(1) Included in Non-interest income.

**Table of Contents****Changes in Level 3 Fair Value Measurements**

The following tables present, for the three months ended March 31, 2018 and March 31, 2017, a roll-forward of the balance sheet amounts (including changes in fair value) for financial instruments classified in Level 3 of the valuation hierarchy:

(in thousands)	Fair Value January 1, 2018	Total Realized/Unrealized Gains/(Losses) Recorded in			Transfers to/(from) Level 3	Fair Value at Mar. 31, 2018	Change in Unrealized Gains/(Losses) Related to Instruments Held at March 31, 2018
		Income/ (Loss)	Comprehensive (Loss) Income	Issuances Settlements			
Mortgage servicing rights	\$ 2,729	\$ (154)	\$	\$	\$	\$ 2,575	\$ (154)

(in thousands)	Fair Value January 1, 2017	Total Realized/Unrealized Gains/(Losses) Recorded in			Transfers to/(from) Level 3	Fair Value at Mar. 31, 2017	Change in Unrealized Gains/ (Losses) Related to Instruments Held at March 31, 2017
		Income/ (Loss)	Comprehensive (Loss) Income	Issuances Settlements			
Mortgage servicing rights	\$ 228,099	\$ (2,726)	\$	\$ 7,574	\$ (4,147)	\$ 228,800	\$ (2,726)
Interest rate lock commitments	982	1,467				2,449	2,430

The Company's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the reporting period. There were no transfers in or out of Levels 1, 2, or 3 during the three months ended March 31, 2018 or 2017.

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For Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Fair Value at Mar. 31, 2018	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Mortgage servicing rights	\$2,575	Discounted Cash Flow	Weighted Average Constant Prepayment Rate <sup>(1)</sup>	10.66%
			Weighted Average Discount Rate	12.00

(1) Represents annualized loan repayment rate assumptions.

The significant unobservable inputs used in the fair value measurement of the Company's MSR's are the weighted average constant prepayment rate and the weighted average discount rate. Significant increases or decreases in either of those inputs in isolation could result in significantly lower or higher fair value measurements. Although the constant prepayment rate and the discount rate are not directly interrelated, they generally move in opposite directions.

*Assets Measured at Fair Value on a Non-Recurring Basis*

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g., when there is evidence of impairment). The following tables present assets and liabilities that were measured at fair value on a non-recurring basis as of March 31, 2018 and December 31, 2017, and that were included in the Company's Consolidated Statements of Condition at those dates:

(in thousands)	Fair Value Measurements at March 31, 2018 Using				Total Fair Value
	Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical	
Certain impaired loans <sup>(1)</sup>	\$	\$	\$ 15,558		\$ 15,558
Other assets <sup>(2)</sup>	\$	\$	3,121		3,121
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 18,679</b>		<b>\$ 18,679</b>

(1) Represents the fair value of impaired loans, based on the value of the collateral.

(2) Represents the fair value of repossessed assets, based on the appraised value of the collateral subsequent to its initial classification as repossessed assets.

**Fair Value Measurements at December 31, 2017 Using**

(in thousands)	Quoted Prices in Active Markets for Identical			Total Fair Value
	Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certain impaired loans <sup>(1)</sup>	\$	\$	\$ 45,837	\$ 45,837
Other assets <sup>(2)</sup>			4,357	4,357
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 50,194</b>	<b>\$ 50,194</b>

(1) Represents the fair value of impaired loans, based on the value of the collateral.

(2) Represents the fair value of repossessed assets, based on the appraised value of the collateral subsequent to its initial classification as repossessed assets.

The fair values of collateral-dependent impaired loans are determined using various valuation techniques, including consideration of appraised values and other pertinent real estate and other market data.

#### ***Other Fair Value Disclosures***

For the disclosure of fair value information about the Company's on- and off-balance sheet financial instruments, when available, quoted market prices are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present-value estimates or other valuation techniques. Such fair values are significantly affected by the assumptions used, the timing of future cash flows, and the discount rate.

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Because assumptions are inherently subjective in nature, estimated fair values cannot be substantiated by comparison to independent market quotes. Furthermore, in many cases, the estimated fair values provided would not necessarily be realized in an immediate sale or settlement of such instruments.

The following tables summarize the carrying values, estimated fair values, and fair value measurement levels of financial instruments that were not carried at fair value on the Company's Consolidated Statements of Condition at March 31, 2018 and December 31, 2017:

(in thousands)	Carrying Value	Estimated Fair Value	March 31, 2018 Fair Value Measurement Using Quoted Prices in		
			Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 2,680,772	\$ 2,680,772	\$ 2,680,772	\$	\$
FHLB stock <sup>(1)</sup>	622,989	622,989		622,989	
Loans, net	38,759,685	38,462,422			38,462,422
<b>Financial Liabilities:</b>					
Deposits	\$ 29,235,434	\$ 29,178,221	\$ 20,172,114 <sup>(2)</sup>	\$ 9,006,107 <sup>(3)</sup>	\$
Borrowed funds	13,343,759	13,176,141		13,176,141	

(1) Carrying value and estimated fair value are at cost.

(2) Interest-bearing checking and money market accounts, savings accounts, and non-interest-bearing accounts.

(3) Certificates of deposit.

(in thousands)	Carrying Value	Estimated Fair Value	December 31, 2017 Fair Value Measurement Using Quoted Prices in		
			Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 2,528,169	\$ 2,528,169	\$ 2,528,169	\$	\$
FHLB stock <sup>(1)</sup>	603,819	603,819		603,819	
Loans, net	38,265,183	38,254,538			38,254,538
<b>Financial Liabilities:</b>					
Deposits	\$ 29,102,163	\$ 29,044,852	\$ 20,458,517 <sup>(2)</sup>	\$ 8,586,335 <sup>(3)</sup>	\$
Borrowed funds	12,913,679	12,780,653		12,780,653	



- (1) Carrying value and estimated fair value are at cost.
- (2) Interest-bearing checking and money market accounts, savings accounts, and non-interest-bearing accounts.
- (3) Certificates of deposit.

The methods and significant assumptions used to estimate fair values for the Company's financial instruments follow:

*Cash and Cash Equivalents*

Cash and cash equivalents include cash and due from banks and federal funds sold. The estimated fair values of cash and cash equivalents are assumed to equal their carrying values, as these financial instruments are either due on demand or have short-term maturities.

*Securities*

If quoted market prices are not available for a specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to observable market information, pricing models also incorporate transaction details such as maturities and cash flow assumptions.

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### *Federal Home Loan Bank Stock*

Ownership in equity securities of the FHLB is generally restricted and there is no established liquid market for their resale. The carrying amount approximates the fair value.

### *Loans*

The Company discloses the fair value of loans measured at amortized cost using an exit price notion. Prior to adopting ASU No. 2016-01, the Company measured the fair value of loans that are accounted for at amortized cost under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk, and market factors. The Company determined the fair value on substantially all of its loans for disclosure purposes, on an individual loan basis. The discount rates reflect current market rates for loans with similar terms to borrowers having similar credit quality on an exit price basis. The estimated fair values of non-performing mortgage and other loans are based on recent collateral appraisals. For those loans where a discounted cash flow technique was not considered reliable, the Company used a quoted market price for each individual loan.

### *Mortgage Servicing Rights*

MSRs do not trade in an active market with readily observable prices. Accordingly, the Company bases the fair value of its MSRs on a valuation performed by a third-party valuation specialist. This specialist determines fair value based on the present value of estimated future net servicing income cash flows, and incorporates assumptions that market participants would use to estimate fair value, including estimates of prepayment speeds, discount rates, default rates, refinance rates, servicing costs, escrow account earnings, contractual servicing fee income, and ancillary income. The specialist and the Company evaluate, and periodically adjust, as necessary, these underlying inputs and assumptions to reflect market conditions and changes in the assumptions that a market participant would consider in valuing MSRs.

### *Deposits*

The fair values of deposit liabilities with no stated maturity (i.e., interest-bearing checking and money market accounts, savings accounts, and non-interest-bearing accounts) are equal to the carrying amounts payable on demand. The fair values of CDs represent contractual cash flows, discounted using interest rates currently offered on deposits with similar characteristics and remaining maturities. These estimated fair values do not include the intangible value of core deposit relationships, which comprise a significant portion of the Company's deposit base.

### *Borrowed Funds*

The estimated fair value of borrowed funds is based either on bid quotations received from securities dealers or the discounted value of contractual cash flows with interest rates currently in effect for borrowed funds with similar maturities and structures.

### *Off-Balance Sheet Financial Instruments*

The fair values of commitments to extend credit and unadvanced lines of credit are estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the creditworthiness of the potential borrowers. The estimated fair values of such off-balance sheet financial instruments were insignificant at March 31, 2018 and December 31, 2017.

**Note 11. Impact of Recent Accounting Pronouncements**

**Recently Adopted Accounting Standards**

The Company early adopted ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, effective January 1, 2018. ASU No. 2018-02 addresses a narrow-scope financial reporting issue that arose as a consequence of the enactment of the Tax Cuts and Jobs Act of 2017. ASU No. 2018-02 permits an election to reclassify from accumulated other comprehensive income (loss) to retained earnings the standard tax effects resulting from the difference between the historical federal corporate income tax rate of 35% and the newly enacted 21% federal corporate income tax rate. Effective January 1, 2018, the Company

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recorded a reclassification adjustment of \$2.5 million decreasing AOCL and increasing retained earnings. The Company's only components of AOCL are the fair value adjustment for securities available for sale and the tax effected related pension and post-retirement obligations.

The Company early adopted ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities, effective January 1, 2018. ASU No. 2017-12 changes the recognition and presentation requirements as well as the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing and hedge documentation. As the Company currently has no identified accounting hedges in place, adoption of ASU No. 2017-12 had no impact on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company adopted ASU No. 2017-09, Compensation - Stock Compensation (Topic 718) as of January 1, 2018. The ASU's amendments are applied prospectively to awards modified on or after the effective date. ASU No. 2017-09 clarifies when changes to the terms or conditions of a share-based payment award should be accounted for as a modification. Modification accounting is applied only if the fair value, the vesting conditions, and the classification of the award (as an equity or liability instrument) change as a result of the change in terms or conditions. The adoption of ASU No. 2017-09 did not have an effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company adopted ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, on January 1, 2018. ASU No. 2017-07 requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. The adoption of ASU No. 2017-07 did not have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, on January 1, 2018, with retrospective application. ASU No. 2016-18 will require that the reconciliation of the beginning-of-period and end-of-period cash and cash equivalent amounts shown on the statement of cash flows include restricted cash and restricted cash equivalents. If restricted cash and restricted cash equivalents are presented separately from cash and cash equivalents on the balance sheet, entities are required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. Entities will also be required to disclose information regarding the nature of the restrictions. The adoption of ASU No. 2016-18 did not have a material impact on the Company's financial position or results of operations, or cash flows.

The Company adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments on January 1, 2018 with retrospective application. ASU No. 2016-15 addresses the following cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including BOLI policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The adoption of ASU No. 2016-15 did not have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.



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The Company adopted ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities by means of a cumulative-effect adjustment as of January 1, 2018. ASU No. 2016-01 provides targeted improvements to GAAP including, amongst other improvements, the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, thus eliminating eligibility for the available-for-sale category. FHLB stock, however, is not in the scope of ASU No. 2016-01 and will continue to be presented at historical cost. Upon adoption, an immaterial amount of unrealized losses related to the in-scope equity securities was reclassified from other comprehensive loss to retained earnings and the reclassification of an equity investments from securities available for sale to other assets with its related market value changes reflected in earnings for the three months ended March 31, 2018. In addition, the fair value disclosures for financial instruments in Note 10 are computed using an exit price notion as required by ASU No. 2016-01.

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers and its amendments which established ASC Topic 606, Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective approach. In summary, the core principle of ASC Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company's revenue streams that are covered by ASC Topic 606 are primarily fees earned in connection with performing services for our customers such as investment advisor fees, wire transfer fees, and bounced check fees. Such fees are either satisfied over time if the service is performed over a period of time (as with investment advisor fees or safe deposit box rental fees), or satisfied at a point in time (as with wire transfer fees and bounced check fees). The Company recognizes fees for services performed over the time period to which the fees relate. The Company recognizes fees earned at a point in time on the day the fee is earned. The modified retrospective approach which includes presenting the cumulative effect of initial application, if any, along with supplementary disclosures, if any. The Company did not record a cumulative effect adjustment upon adoption of the standard.

**Recently Issued Accounting Standards**

In March 2017, the FASB issued ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU No. 2017-08 specifies that the premium amortization period ends at the earliest call date, rather than the contractual maturity date, for purchased non-contingently callable debt securities. Shortening the amortization period is generally expected to more closely align the interest income recognition with the expectations incorporated in the market pricing on the underlying securities. The shorter amortization period means that interest income would generally be lower in the periods before the earliest call date and higher thereafter (if the security is not called) compared to current GAAP. Currently, the premium is amortized to the contractual maturity date under GAAP. Because the premium will be amortized to the earliest call date, the holder will not recognize a loss in earnings for the unamortized premium when the call is exercised. This ASU No. 2017-08 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. The ASU No. 2017-08 specifies that the transition approach to the standard be accounted for on a modified retrospective basis with a cumulative effect adjustment in retained earnings as of the beginning of the period of adoption. The Company plans to adopt ASU No. 2017-08 effective January 1, 2019 and the adoption is not expected to have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU No. 2017-04 eliminates the second step of the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity will recognize

an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill recorded. ASU No. 2017-04 does not amend the optional qualitative assessment of goodwill impairment. ASU No. 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company plans to adopt ASU No. 2017-04 prospectively beginning January 1, 2020 and the impact of its adoption on the Company's Consolidated Statements of Condition, results of operations, or cash flows will be dependent upon goodwill impairment determinations made after that date.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 amends guidance on reporting credit losses for assets held on an amortized cost basis and available-for-sale debt securities. For assets held at amortized cost, ASU No. 2016-13 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until

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it is probable a loss has been incurred. The amendments in ASU No. 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects the measurement of expected credit losses based on relevant information about past events, including historical loss experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however ASU No. 2016-13 will require that credit losses be presented as an allowance rather than as a write-down. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities that are SEC filers, the amendments in ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

An entity will apply the amendments in ASU No. 2016-13 through a cumulative-effect adjustment to retained earnings as of January 1, 2020 (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of ASU No. 2016-13. Amounts previously recognized in accumulated other comprehensive income (loss) as of the date of adoption that relate to improvements in cash flows expected to be collected should continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption should be recorded in earnings when received. Financial assets for which the guidance in Subtopic 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality (PCD assets), has previously been applied should prospectively apply the guidance in ASU No. 2016-13 for PCD assets. A prospective transition approach should be used for PCD assets where upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses. This transition relief will avoid the need for a reporting entity to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than insignificant credit deterioration since origination. The transition relief also will allow an entity to accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date of ASU No. 2016-13. The same transition requirements should be applied to beneficial interests that previously applied Subtopic 310-30 or have a significant difference between contractual cash flows and expected cash flows.

The Company is evaluating ASU No. 2016-13 and has initiated a working group with multiple members from applicable departments to evaluate the requirements of the new standard, planning for loss modeling requirements consistent with lifetime expected loss estimates, and assessing the impact it will have on current processes. This evaluation includes a review of existing credit models to identify areas where existing credit models used to comply with other regulatory requirements may be leveraged and areas where new models may be required. The adoption of ASU No. 2016-13 could have a material effect on the Company's Consolidated Statements of Condition and results of operations. The extent of the impact upon adoption will likely depend on the characteristics of the Company's loan portfolio and economic conditions at that date, as well as forecasted conditions thereafter.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) and the Company will adopt the ASU as of January 1, 2019. ASU No. 2016-02 is intended to improve financial reporting about leasing transactions and the key provision impacting the Company is the requirement for a lessee to record a right-of-use asset and a liability, which represents the obligation to make lease payments for long-term operating leases. Additionally, the ASU includes quantitative and qualitative disclosures required by lessees and lessors to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective



approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company's working group, comprised of associates from disciplines such as Vendor Risk Management, Real Estate, Technology, and Accounting, have made substantial progress in reviewing contractual arrangements for embedded leases in an effort to identify the Company's full lease population. To date, we have found only a few minor embedded leases in our non-lease contracts. We are presently evaluating all of our leases for compliance with the new lease accounting rules and as a lessor and lessee, we do not anticipate the classification of our leases to change. However, the Company's assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date. The Company is currently reviewing vendor software solutions to provide a robust lease accounting package that will accurately prepare the financial statement adjustments and enhanced disclosures required by ASU No. 2016-02.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*For the purposes of this Quarterly Report on Form 10-Q, the words we, us, our, and the Company are used to refer to New York Community Bancorp, Inc. and our consolidated subsidiaries, including New York Community Bank and New York Commercial Bank (the Community Bank and the Commercial Bank, respectively, and collectively, the Banks).*

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING LANGUAGE**

This report, like many written and oral communications presented by New York Community Bancorp, Inc. and our authorized officers, may contain certain forward-looking statements regarding our prospective performance and strategies within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of said safe harbor provisions.

Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words anticipate, believe, estimate, expect, intend, plan, project, seek, strive, try, or future or conditional verbs such as will, would, should, could, may, or expressions. Although we believe that our plans, intentions, and expectations as reflected in these forward-looking statements are reasonable, we can give no assurance that they will be achieved or realized.

Our ability to predict results or the actual effects of our plans and strategies is inherently uncertain. Accordingly, actual results, performance, or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements contained in this report.

There are a number of factors, many of which are beyond our control, that could cause actual conditions, events, or results to differ significantly from those described in our forward-looking statements. These factors include, but are not limited to:

general economic conditions, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;

conditions in the securities markets and real estate markets or the banking industry;

changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;

changes in interest rates, which may affect our net income, prepayment penalty income, and other future cash flows, or the market value of our assets, including our investment securities;

changes in the quality or composition of our loan or securities portfolios;

changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;

potential increases in costs if the Company is designated a SIFI under the Dodd-Frank Act;

heightened regulatory focus on CRE concentration and related limits that have been, or may in the future be, imposed by regulators;

changes in competitive pressures among financial institutions or from non-financial institutions;

changes in deposit flows and wholesale borrowing facilities;

changes in the demand for deposit, loan, and investment products and other financial services in the markets we serve;

our timely development of new lines of business and competitive products or services in a changing environment, and the acceptance of such products or services by our customers;

our ability to obtain timely shareholder and regulatory approvals of any merger transactions or corporate restructurings we may propose;

our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames;

potential exposure to unknown or contingent liabilities of companies we have acquired, may acquire, or target for acquisition;

failure to obtain applicable regulatory approvals for the payment of future dividends;

the ability to pay future dividends at currently expected rates;

the ability to hire and retain key personnel;

the ability to attract new customers and retain existing ones in the manner anticipated;

changes in our customer base or in the financial or operating performances of our customers' businesses;

any interruption in customer service due to circumstances beyond our control;

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the outcome of pending or threatened litigation, or of matters before regulatory agencies, whether currently existing or commencing in the future;

environmental conditions that exist or may exist on properties owned by, leased by, or mortgaged to the Company;

any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;

operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent;

the ability to keep pace with, and implement on a timely basis, technological changes;

changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Dodd-Frank Act, and other changes pertaining to banking, securities, taxation, rent regulation and housing, financial accounting and reporting, environmental protection, and insurance, and the ability to comply with such changes in a timely manner;

changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System;

changes in accounting principles, policies, practices, or guidelines;

changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;

changes in regulatory expectations relating to predictive models we use in connection with stress testing and other forecasting or in the assumptions on which such modeling and forecasting are predicated;

changes in our credit ratings or in our ability to access the capital markets;

natural disasters, war, or terrorist activities; and

other economic, competitive, governmental, regulatory, technological, and geopolitical factors affecting our operations, pricing, and services.

In addition, the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control.

Furthermore, we routinely evaluate opportunities to expand through acquisitions and conduct due diligence activities in connection with such opportunities. As a result, acquisition discussions and, in some cases, negotiations, may take place at any time, and acquisitions involving cash or our debt or equity securities may occur.

See Part II, Item 1A, Risk Factors, in this report and Part I, Item 1A, Risk Factors, in our Form 10-K for the year ended December 31, 2017 for a further discussion of important risk factors that could cause actual results to differ materially from our forward-looking statements.

Readers should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise or update these forward-looking statements except as may be required by law.

Table of Contents**RECONCILIATIONS OF STOCKHOLDERS EQUITY, COMMON STOCKHOLDERS EQUITY,  
AND TANGIBLE COMMON STOCKHOLDERS EQUITY;****TOTAL ASSETS AND TANGIBLE ASSETS; AND THE RELATED MEASURES**

(unaudited)

While stockholders' equity, common stockholders' equity, total assets, and book value per common share are financial measures that are recorded in accordance with GAAP, tangible common stockholders' equity, tangible assets, and tangible book value per common share are not. It is management's belief that these non-GAAP measures should be disclosed in this report and others we issue for the following reasons:

1. Tangible common stockholders' equity is an important indication of the Company's ability to grow organically and through business combinations, as well as its ability to pay dividends and to engage in various capital management strategies.
2. Tangible book value per common share and the ratio of tangible common stockholders' equity to tangible assets are among the capital measures considered by current and prospective investors, both independent of, and in comparison with, the Company's peers.

Tangible common stockholders' equity, tangible assets, and the related non-GAAP measures should not be considered in isolation or as a substitute for stockholders' equity, common stockholders' equity, total assets, or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate these non-GAAP measures may differ from that of other companies reporting non-GAAP measures with similar names.

Reconciliations of our stockholders' equity, common stockholders' equity, and tangible common stockholders' equity; our total assets and tangible assets; and the related financial measures for the respective periods follow:

	<b>At or for the Three Months Ended</b>		
(dollars in thousands)	<b>Mar. 31, 2018</b>	<b>Dec. 31, 2017</b>	<b>Mar. 31, 2017</b>
<b>Total Stockholders' Equity</b>	\$ 6,780,717	\$ 6,795,376	\$ 6,647,351
Less: Goodwill	(2,436,131)	(2,436,131)	(2,436,131)
Core deposit intangibles ( CDI )			(54)
Preferred stock	(502,840)	(502,840)	(503,116)
<b>Tangible common stockholders' equity</b>	\$ 3,841,746	\$ 3,856,405	\$ 3,708,050
<b>Total Assets</b>	\$ 49,654,874	\$ 49,124,195	\$ 48,824,564
Less: Goodwill	(2,436,131)	(2,436,131)	(2,436,131)
CDI			(54)
<b>Tangible assets</b>	\$ 47,218,743	\$ 46,688,064	\$ 46,388,379
<b>Average Common Stockholders' Equity</b>	\$ 6,287,730	\$ 6,253,482	\$ 6,151,286

Less: Average goodwill and CDI	(2,436,131)	(2,436,131)	(2,436,286)
<b>Average tangible common stockholders equity</b>	\$ 3,851,599	\$ 3,817,351	\$ 3,715,000
<b>Average Assets</b>	\$ 48,862,383	\$ 48,175,046	\$ 48,736,309
Less: Average goodwill and CDI	(2,436,131)	(2,436,131)	(2,436,286)
<b>Average tangible assets</b>	\$ 46,426,252	\$ 45,738,915	\$ 46,300,023
<b>Net Income Available to Common Shareholders</b>	\$ 98,345	\$ 128,314	\$ 103,957
Add back: Amortization of CDI, net of tax			92
<b>Adjusted net income available to common shareholders</b>	\$ 98,345	\$ 128,314	\$ 104,049
<b>GAAP MEASURES:</b>			
Return on average assets	0.87%	1.13%	0.85%
Return on average common stockholders equity	6.26	8.21	6.76
Book value per common share	\$ 12.80	\$ 12.88	\$ 12.57
Common stockholders equity to total assets	12.64	12.81	12.58
<b>NON-GAAP MEASURES:</b>			
Return on average tangible assets	0.92%	1.19%	0.90%
Return on average tangible common stockholders equity	10.21	13.45	11.20
Tangible book value per common share	\$ 7.83	\$ 7.89	\$ 7.58
Tangible common stockholders equity to tangible assets	8.14	8.26	7.99



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### **Executive Summary**

New York Community Bancorp, Inc. is the holding company for New York Community Bank and New York Commercial Bank. At March 31, 2018, we had total assets of \$49.7 billion, total loans of \$38.9 billion, deposits of \$29.2 billion, and total stockholders' equity of \$6.8 billion.

Chartered in the State of New York, both the Community Bank and the Commercial Bank are subject to regulations by the FDIC, the CFPB, and the NYSDFS. In addition, the holding company is subject to regulation by the FRB, the SEC, and to the requirements of the NYSE, where shares of our common stock are traded under the symbol NYCB and shares of our preferred stock trade under the symbol NYCB PR A.

Reflecting our growth through a series of acquisitions, the Community Bank operates 225 branches through seven local divisions, each with a history of service and strength: Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, and Roosevelt Savings Bank in New York; Garden State Community Bank in New Jersey; Ohio Savings Bank in Ohio; and AmTrust Bank in Arizona and Florida, while the Commercial Bank operates 18 of its 30 branches under the divisional name Atlantic Bank.

Now in our 25th year as a publicly traded company, our mission is to provide our shareholders with a solid return on their investment by producing a strong financial performance, adhering to conservative underwriting standards, maintaining a solid capital position, and engaging in corporate strategies that enhance the value of our shares. For the three months ended March 31, 2018, the Company reported net income of \$106.6 million, up 2% compared to \$104.0 million at March 31, 2017. Net income available to common shareholders was \$98.3 million, down 5% compared to \$104.0 million in the year-ago first quarter. In the current first quarter period, the Company paid \$8.2 million in preferred stock dividends, whereas we had no such payment in the first quarter of last year. For the three months ended March 31, 2018, diluted earnings per common share were \$0.20 as compared to \$0.21 for the three months ended March 31, 2017.

The key trends in the quarter were:

#### ***Continued Growth in our Loan Portfolio***

Our loan growth continued into the first quarter of the year with total loans held for investment increasing \$501.5 million compared to the prior quarter or 5% on an annualized basis. Once again, our loan growth was driven by growth in our core multi-family loan portfolio. Total multi-family loans increased \$581.5 million from the prior quarter, or at an 8% annualized run rate, and \$1.6 billion or 6% from the year-ago first quarter. The loan growth this quarter reflects another solid quarter of origination volumes. We originated \$2.4 billion in total loans held for investment during the first quarter, up 46% on a year-over-year basis, but down 22% from the seasonally strong fourth quarter volumes. The year-over-year originations growth was due to growth in multi-family loans and in specialty finance loans. Even after growing for three consecutive quarters, the Company still managed to stay under the SIFI threshold of \$50 billion. For the four quarters ended March 31, 2018, our total consolidated assets averaged \$48.9 billion. Given where our average total consolidated assets stood at the end of the quarter, the Company has the ability to grow the balance sheet by approximately \$3 billion without breaching the current SIFI threshold, based on the four-quarter trailing average of total assets.

#### ***Our Asset Quality Remains Strong***

During the first quarter, net charge-offs were \$6.5 million or 0.02% of average loans, while our total NPLs were relatively unchanged compared to the prior quarter. NPLs totaled \$73.4 million at March 31, 2018 compared to

\$73.7 million at December 31, 2017 and \$60.1 million at March 31, 2017. Our NPAs declined modestly to \$88.8 million or 0.18% of total assets compared to \$90.1 million or 0.18% of total assets at December 31, 2017 and \$70.4 million at March 31, 2017. The year-over-year increase in both NPLs and NPAs were the result of certain tax medallion-related loans being transferred to non-accrual status in the second quarter of last year. The performance of our principal assets continue to be strong.

***Rising Short Term Interest Rates Continue to Impact our NIM***

The first quarter 2018 NIM of 2.42% was down six bp on a sequential basis and down 29 bp on a year-over-year basis. Excluding the contribution from prepayment income, the NIM would have come in at 2.29% during the first quarter of 2018 compared to 2.37% in the fourth quarter of 2017 and 2.60% in the first quarter of 2017. In addition to the impact from two 25-bp rate increases in December 2017 and March 2018, the NIM was also impacted by the industry-wide increase in retail deposit rates.

**Table of Contents*****Ongoing Decline in our Operating Expenses***

Total non-interest expenses were \$139.1 million for the three months ended March 31, 2018, down \$9 million or 6% compared to the three months ended December 31, 2017 and down \$28 million or 17% compared to the three months ended March 31, 2017. Both the linked-quarter and year-over-year improvements are the result of the Company successfully executing on the cost savings from exiting the mortgage banking business in the third quarter of last year, along with continued efforts to extract additional cost savings from the rest of our organization. The majority of the declines was in G&A expense. G&A expense declined \$11.1 million or 27% compared to the previous quarter and \$15.3 million or 34% compared to the year-ago quarter. Largely reflecting lower expenses, the efficiency ratio improved to 47.45% during the first quarter of 2018, as compared to 50.11% in the fourth quarter of 2017 and 50.99% in the first quarter of 2017.

**External Factors**

The following is a discussion of certain external factors that tend to influence our financial performance and the strategic actions we take:

***Interest Rates***

Among the external factors that tend to influence our performance, the interest rate environment is key. Just as short-term interest rates affect the cost of our deposits and that of the funds we borrow, market interest rates affect the yields on the loans we produce for investment and the securities in which we invest. As further discussed under Loans Held for Investment later on in this discussion, the interest rates on our multi-family and CRE loans generally are based on the five-year CMT and to a lesser extent on the seven-year CMT.

The following table summarizes the high, low, and average five- and seven-year CMTs in the respective periods:

	<b>Five-Year Constant Maturity Treasury Rate</b>				<b>Seven-Year Constant Maturity Treasury Rate</b>		
	March 31, 2018	Dec.31, 2017	March 31, 2017		March 31, 2018	Dec. 31, 2017	March 31, 2017
High	2.69%	2.26%	2.14%	High	2.86%	2.40%	2.43%
Low	2.25	1.91	1.80	Low	2.37	2.12	2.12
Average	2.53	2.07	1.95	Average	2.68	2.25	2.26

(Source: Bloomberg)

Changes in market interest rates generally have a lesser impact on our multi-family and CRE loan production than they do on other types of loans we produce. Because the multi-family and CRE loans we produce generate income when they prepay (which is recorded as interest income), the impact of repayment activity can be meaningful. In the first quarter of 2018, prepayment income from loans contributed \$11.8 million to interest income; in the trailing and year-earlier quarters, the contribution was \$10.1 million and \$9.6 million, respectively.

***Economic Indicators***

While we attribute our asset quality to the nature of the loans we produce and our conservative underwriting standards, the quality of our assets can also be impacted by economic conditions in our local markets and throughout the United States. The information that follows consists of recent economic data that we consider to be germane to our performance and the markets we serve.

The following table presents the unemployment rates for the United States and our key deposit markets in the months ended March 31, 2018, December 31, 2017, and March 31, 2017. While unemployment declined year-over-year in all of these markets, the sequential comparison indicates declines in certain markets and modest increases in three states and New York City.

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	<b>For the Month Ended</b>		
	March 31, 2018	December 31, 2017	March 31, 2017
<b>Unemployment rate:</b>			
United States	4.1%	3.9%	4.6%
New York City	4.2	3.9	4.4
Arizona	4.6	4.6	4.9
Florida	3.8	3.7	4.2
New Jersey	4.7	4.2	4.6
New York	4.8	4.4	4.7
Ohio	4.3	4.5	5.3

(Source: U.S. Department of Labor)

Another key economic indicator is the CPI, which measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The following table indicates the change in the CPI for the twelve months ended at each of the indicated dates:

	<b>For the Twelve Months Ended</b>		
	March 2018	December 2017	March 2017
<b>Change in prices:</b>	2.4%	2.1%	2.4%

Yet another pertinent economic indicator is the residential rental vacancy rate in New York, as reported by the U.S. Department of Commerce, and the office vacancy rate in Manhattan, as reported by a leading commercial real estate broker, Jones Lang LaSalle. These measures are important in view of the fact that 64.0% of our multi-family loans and 68.9% of our CRE loans are secured by properties in New York, with Manhattan accounting for 26.1% and 50.2% of our multi-family and CRE loans, respectively.

As reflected in the following table, residential rental vacancy rates in New York decreased year-over-year and linked-quarter, while office vacancy rates in Manhattan declined year-over-year and linked quarter.

	<b>For the Three Months Ended</b>		
	March 2018	December 31, 2017	March 31, 2017
<b>Rental Vacancy Rates:</b>			
New York residential	4.7%	4.9%	5.2%
Manhattan office	8.5	10.1	10.3

Lastly, the Consumer Confidence Index<sup>®</sup> increased to 127.0 in March 2018 from 122.1 in December 2017 and 125.6 in March 2017. An index level of 90 or more is considered indicative of a strong economy.

**Recent Events****Declaration of Dividend on Common Shares**

On April 24, 2018, the Board of Directors declared a quarterly cash dividend of \$0.17 per share on our common stock, payable on May 22, 2018 to shareholders of record at the close of business on May 8, 2018.

**Critical Accounting Policies**

We consider certain accounting policies to be critically important to the portrayal of our financial condition and results of operations, since they require management to make complex or subjective judgments, some of which may relate to matters that are inherently uncertain. The inherent sensitivity of our consolidated financial statements to these critical accounting policies, and the judgments, estimates, and assumptions used therein, could have a material impact on our financial condition or results of operations.

We have identified the following to be critical accounting policies: the determination of the allowances for loan losses; the determination of the amount, if any, of goodwill impairment; and the determination of the valuation allowance, if any, for deferred tax assets.

The judgments used by management in applying these critical accounting policies may be influenced by adverse changes in the economic environment, which may result in changes to future financial results.

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### ***Allowances for Loan Losses***

#### ***Allowance for Losses on Non-Covered Loans***

The allowance for losses on non-covered loans represents our estimate of probable and estimable losses inherent in the non-covered loan portfolio as of the date of the balance sheet. Losses on non-covered loans are charged against, and recoveries of losses on non-covered loans are credited back to, the allowance for losses on non-covered loans.

Although non-covered loans are held by either the Community Bank or the Commercial Bank, and a separate loan loss allowance is established for each, the total of the two allowances is available to cover all losses incurred. In addition, except as otherwise noted in the following discussion, the process for establishing the allowance for losses on non-covered loans is largely the same for each of the Community Bank and the Commercial Bank.

The methodology used for the allocation of the allowance for non-covered loan losses at March 31, 2018 and December 31, 2017 was generally comparable, whereby the Community Bank and the Commercial Bank segregated their loss factors (used for both criticized and non-criticized loans) into a component that was primarily based on historical loss rates and a component that was primarily based on other qualitative factors that are probable to affect loan collectability. In determining the respective allowances for non-covered loan losses, management considers the Community Bank's and the Commercial Bank's current business strategies and credit processes, including compliance with applicable regulatory guidelines and with guidelines approved by the respective Boards of Directors with regard to credit limitations, loan approvals, underwriting criteria, and loan workout procedures.

The allowance for losses on non-covered loans is established based on management's evaluation of incurred losses in the portfolio in accordance with GAAP, and is comprised of both specific valuation allowances and general valuation allowances.

Specific valuation allowances are established based on management's analyses of individual loans that are considered impaired. If a non-covered loan is deemed to be impaired, management measures the extent of the impairment and establishes a specific valuation allowance for that amount. A non-covered loan is classified as impaired when, based on current information and/or events, it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. We apply this classification as necessary to non-covered loans individually evaluated for impairment in our portfolios. Smaller-balance homogenous loans and loans carried at the lower of cost or fair value are evaluated for impairment on a collective, rather than individual, basis. Loans to certain borrowers who have experienced financial difficulty and for which the terms have been modified, resulting in a concession, are considered TDRs and are classified as impaired.

We generally measure impairment on an individual loan and determine the extent to which a specific valuation allowance is necessary by comparing the loan's outstanding balance to either the fair value of the collateral, less the estimated cost to sell, or the present value of expected cash flows, discounted at the loan's effective interest rate. Generally, when the fair value of the collateral, net of the estimated cost to sell, or the present value of the expected cash flows is less than the recorded investment in the loan, any shortfall is promptly charged off.

We also follow a process to assign general valuation allowances to non-covered loan categories. General valuation allowances are established by applying our loan loss provisioning methodology, and reflect the inherent risk in outstanding held-for-investment loans. This loan loss provisioning methodology considers various factors in determining the appropriate quantified risk factors to use to determine the general valuation allowances. The factors assessed begin with the historical loan loss experience for each major loan category. We also take into account an estimated historical loss emergence period (which is the period of time between the event that triggers a loss and the

confirmation and/or charge-off of that loss) for each loan portfolio segment.

The allocation methodology consists of the following components: First, we determine an allowance for loan losses based on a quantitative loss factor for loans evaluated collectively for impairment. This quantitative loss factor is based primarily on historical loss rates, after considering loan type, historical loss and delinquency experience, and loss emergence periods. The quantitative loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in historical loss levels, loss emergence periods, or other risks. Lastly, we allocate an allowance for loan losses based on qualitative loss factors. These qualitative loss factors are designed to account for losses that may not be provided for by the quantitative loss component due to other factors evaluated by management, which include, but are not limited to:

Changes in lending policies and procedures, including changes in underwriting standards and collection, and charge-off and recovery practices;

Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

Changes in the nature and volume of the portfolio and in the terms of loans;



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Changes in the volume and severity of past-due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;

Changes in the quality of our loan review system;

Changes in the value of the underlying collateral for collateral-dependent loans;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations;

Changes in the experience, ability, and depth of lending management and other relevant staff; and

The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the existing portfolio.

By considering the factors discussed above, we determine an allowance for non-covered loan losses that is applied to each significant loan portfolio segment to determine the total allowance for losses on non-covered loans.

The historical loss period we use to determine the allowance for loan losses on non-covered loans is a rolling 29-quarter look-back period, as we believe this produces an appropriate reflection of our historical loss experience.

The process of establishing the allowance for losses on non-covered loans also involves:

Periodic inspections of the loan collateral by qualified in-house and external property appraisers/inspectors;

Regular meetings of executive management with the pertinent Board committee, during which observable trends in the local economy and/or the real estate market are discussed;

Assessment of the aforementioned factors by the pertinent members of the Boards of Directors and management when making a business judgment regarding the impact of anticipated changes on the future level of loan losses; and

Analysis of the portfolio in the aggregate, as well as on an individual loan basis, taking into consideration payment history, underwriting analyses, and internal risk ratings.

In order to determine their overall adequacy, each of the respective non-covered loan loss allowances is reviewed quarterly by management and the Board of Directors of the Community Bank or the Commercial Bank, as applicable.

We charge off loans, or portions of loans, in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an assessment of the financial condition and repayment capacity of the borrower and/or through an estimate of the fair value of any underlying collateral. For non-real

estate-related consumer credits, the following past-due time periods determine when charge-offs are typically recorded: (1) Closed-end credits are charged off in the quarter that the loan becomes 120 days past due; (2) Open-end credits are charged off in the quarter that the loan becomes 180 days past due; and (3) Both closed-end and open-end credits are typically charged off in the quarter that the credit is 60 days past the date we received notification that the borrower has filed for bankruptcy.

The level of future additions to the respective non-covered loan loss allowances is based on many factors, including certain factors that are beyond management's control, such as changes in economic and local market conditions, including declines in real estate values, and increases in vacancy rates and unemployment. Management uses the best available information to recognize losses on loans or to make additions to the loan loss allowances; however, the Community Bank and/or the Commercial Bank may be required to take certain charge-offs and/or recognize further additions to their loan loss allowances, based on the judgment of regulatory agencies with regard to information provided to them during their examinations of the Banks.

An allowance for unfunded commitments is maintained separate from the allowances for non-covered loan losses and is included in Other liabilities in the Consolidated Statements of Condition.

See Note 6, Allowances for Loan Losses for a further discussion of our allowance for losses on covered loans, as well as additional information about our allowance for losses on non-covered loans.

### ***Goodwill Impairment***

We have significant intangible assets related to goodwill. In connection with our acquisitions, assets acquired and liabilities assumed are recorded at their estimated fair values. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of identifiable net assets acquired, including other identified intangible assets. Our goodwill is evaluated for impairment annually as of year-end or more frequently if conditions exist that indicate that the value may be impaired. Our determination of whether or not goodwill is impaired requires us to make significant judgments and requires us to use significant estimates and assumptions regarding estimated future cash flows. If we change our strategy or if market conditions shift, our judgments may change, which may result in adjustments to the recorded goodwill balance.

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We test our goodwill for impairment at the reporting unit level. These impairment evaluations are performed by comparing the carrying value of the goodwill of a reporting unit to its estimated fair value. We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We had previously identified two reporting units: our Banking Operations reporting unit and our Residential Mortgage Banking reporting unit. On September 29, 2017, the Company sold the Residential Mortgage Banking reporting unit. Our reporting units are the same as our operating segments and reportable segments.

For annual goodwill impairment testing, we have the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill and other intangible assets. If we conclude that this is the case, we must perform the two-step test described below. If we conclude based on the qualitative assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we have completed our goodwill impairment test and do not need to perform the two-step test.

Step one requires the fair value of each reporting unit is compared to its carrying value in order to identify potential impairment. If the fair value of a reporting unit exceeds the carrying value of its net assets, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets exceeds the fair value of a reporting unit, potential impairment is indicated at the reporting unit level and step two of the impairment test is performed.

Step two requires that when potential impairment is indicated in step one, we compare the implied fair value of goodwill with the carrying amount of that goodwill. Determining the implied fair value of goodwill requires a valuation of the reporting unit's tangible and (non-goodwill) intangible assets and liabilities in a manner similar to the allocation of the purchase price in a business combination. Any excess in the value of a reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

As of March 31, 2018, we had goodwill of \$2.4 billion. During the quarter ended March 31, 2018, no triggering events were identified that indicated that the value of goodwill may be impaired. The Company performed its annual goodwill impairment assessment as of December 31, 2017 using step one of the quantitative test and found no indication of goodwill impairment at that date.

## ***Income Taxes***

In estimating income taxes, management assesses the relative merits and risks of the tax treatment of transactions, taking into account statutory, judicial, and regulatory guidance in the context of our tax position. In this process, management also relies on tax opinions, recent audits, and historical experience. Although we use the best available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws and judicial guidance influencing our overall or transaction-specific tax position.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and the carryforward of certain tax attributes such as net operating losses. A valuation allowance is maintained for deferred tax assets that we estimate are more likely than not to be unrealizable, based on available evidence at the time the estimate is made. In assessing the need for a valuation allowance, we estimate future taxable income, considering the prudence and feasibility of tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory tax rates, and future taxable income

levels. In the event we were to determine that we would not be able to realize all or a portion of our net deferred tax assets in the future, we would reduce such amounts through a charge to income tax expense in the period in which that determination was made. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a decrease in income tax expense in the period in which that determination was made. Subsequently recognized tax benefits associated with valuation allowances recorded in a business combination would be recorded as an adjustment to goodwill.

### **Balance Sheet Summary**

At March 31, 2018, the Company recorded total assets of \$49.7 billion, a \$530.7 million or 1% increase from the balance at December 31, 2017 and an \$830.3 million or 2% increase from the balance at March 31, 2017. Total loans, net represented \$38.8 billion of the March 31st balance and were up \$494.5 million or 1% compared to the balance at December 31, 2017, but were down \$213.5 million or 0.5% compared to the March 31, 2017 balance. The March 31, 2017 balance of total loans, net included approximately \$1.6 billion of covered loans, net. These loans were part of our LSA with the FDIC and were sold during the third quarter of last year.

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Total securities equaled \$3.4 billion of our total assets as of March 31, 2018, down \$107.4 million or 3% as of December 31, 2017 and down \$268.3 million or 7% as of March 31, 2017. At March 31, 2018, total securities represented 6.9% of total assets compared to 7.2% and 7.6%, respectively, at December 31, 2017 and March 31, 2017.

Total deposits at March 31, 2018 were \$29.2 billion, up \$133.3 million or 0.5% compared to the balance at December 31, 2017 and \$508.9 million or 1.8% compared to the balance at March 31, 2017. Borrowed funds totaled \$13.3 billion at March 31, 2018 and were up \$430.1 million or 3% compared to the balance at December 31, 2017, and up \$130.3 million or 1% compared to the balance at March 31, 2017.

Total stockholders' equity at the end of the first quarter of 2018 was \$6.8 billion, virtually unchanged from the fourth quarter of 2017, and up \$133.4 million or 2% compared to the first quarter of 2017. Common stockholders' equity to total assets represented 12.64%, 12.81%, and 12.58%, respectively, at March 31, 2018, December 31, 2017, and March 31, 2017. Book value per common share was \$12.80 at March 31, 2018, \$12.88 at December 31, 2017, and \$12.57 at March 31, 2017. Excluding goodwill of \$2.4 billion, tangible common stockholders' equity totaled \$3.8 billion, down modestly from \$3.9 billion in the fourth quarter of 2017 and up \$133.7 million or 4% from the first quarter of 2017. Tangible common stockholders' equity to tangible assets was 8.14%, 8.26%, and 7.99%, respectively, at March 31, 2018, December 31, 2017, and March 31, 2017. Tangible book value per common share was \$7.83 at March 31, 2018, \$7.89 at December 31, 2017, and \$7.58 at March 31, 2017.

**Loans**

For the three months ended March 31, 2018, total loans, net increased \$494.5 million or 1% compared to the three months ended December 31, 2017, but were down \$213.5 million compared to the three months ended March 31, 2017. Included in the quarter-end balance were \$31.4 million of loans held for sale compared to \$35.3 million at the prior quarter-end and \$216.0 million at the year-ago quarter-end. Additionally, the year-ago quarter end period included \$1.6 billion of covered loans, net compared to zero for both the current quarter and the prior quarter. During the third quarter of 2017, the Company sold its entire covered loan portfolio.

***Non-Covered Loans Held for Investment***

Non-covered loans held for investment totaled \$38.9 billion at the end of the current first quarter, an increase of \$501.5 million from the December 31, 2017 balance and up \$1.6 billion from the March 31, 2017 balance. Total loans originated for investment increased 46% on a year-over-year basis to \$2.4 billion, but declined 22% from the fourth quarter of 2017.

In addition to multi-family and CRE loans, our portfolio includes smaller balances of one-to-four family loans, ADC loans, and other loans held for investment, with C&I loans comprising the bulk of the other loan portfolio. Specialty finance loans and leases account for the majority of our C&I loans, with the remainder consisting primarily of loans to small- and mid-size businesses, referred to as other C&I loans.

At March 31, 2018, loans secured by multi-family, non-owner occupied CRE, and ADC properties represented 750.0% of the consolidated Banks' total risk-based capital, within our agreed upon limit of 850%.

The following table presents information about the loans held for investment we originated for the respective periods:

**For the Three Months Ended**

(in thousands)	March 31, 2018	December 31, 2017	March 31, 2017
<b>Mortgage Loans Originated for Investment:</b>			
Multi-family	\$ 1,706,211	\$ 2,038,298	\$ 954,613
Commercial real estate	177,142	346,918	250,342
One-to-four family	2,699	8,160	43,859
Acquisition, development, and construction	15,321	21,644	12,919
Total mortgage loans originated for investment	\$ 1,901,373	\$ 2,415,020	\$ 1,261,733
<b>Other Loans Originated for Investment:</b>			
Specialty finance	\$ 396,889	\$ 547,732	\$ 269,164
Other commercial and industrial	117,614	122,905	122,155
Other	878	789	885
Total other loans originated for investment	\$ 515,381	\$ 671,426	\$ 392,204
Total loans originated for investment	\$ 2,416,754	\$ 3,086,446	\$ 1,653,937

The individual held-for-investment loan portfolios are discussed in detail below.

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**Table of Contents***Multi-Family Loans*

Multi-family loans are our principal asset. The loans we produce are primarily secured by non-luxury residential apartment buildings in New York City that are rent-regulated and feature below-market rents a market we refer to as our Primary Lending Niche.

Multi-family loan originations represented \$1.7 billion, or 70.6%, of the held-for-investment loans we produced in the current first quarter, reflecting a year-over-year increase of \$751.6 million or 79% and a linked quarter decrease of \$332.1 million or 16%. At March 31, 2018, multi-family loans represented \$28.7 billion, or 73.7%, of total non-covered loans held for investment, reflecting a \$581.5 million increase from the balance at December 31st and a \$1.6 billion increase from the balance at March 31, 2017.

The average multi-family loan had a principal balance of \$5.8 million at the end of the current first quarter, which was modestly higher than the balance at December 31, 2017 and up 6% from the \$5.5 million at March 31, 2017.

The majority of our multi-family loans are made to long-term owners of residential apartment buildings with units that are subject to rent regulation and feature below-market rents. Our borrowers typically use the funds we provide for future real estate investments, or to make building-wide improvements and renovations to certain units, as a result of which they are able to increase the rents their tenants pay. In this way, the borrower creates increased cash flows to service debt and borrow against in future years.

In addition to underwriting multi-family loans on the basis of the buildings' income and condition, we consider the borrowers' credit history, profitability, and building management expertise. Borrowers are required to present evidence of their ability to repay the loan from the buildings' current rent rolls, their financial statements, and related documents.

While a small percentage of our multi-family loans are ten-year fixed rate credits, the vast majority of our multi-family loans feature a term of ten or twelve years, with a fixed rate of interest for the first five or seven years of the loan, and an alternative rate of interest in years six through ten or eight through twelve. The rate charged in the first five or seven years is generally based on intermediate-term interest rates plus a spread. During the remaining years, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, plus a spread. Alternately, the borrower may opt for a fixed rate that is tied to the five-year fixed advance rate of the FHLB-NY, plus a spread. The fixed-rate option also requires the payment of one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five- or seven-year term. As the rent roll increases, the typical property owner seeks to refinance the mortgage, and generally does so before the loan reprices in year six or eight.

Our multi-family loans tend to refinance in approximately three years of origination; at March 31, 2018, December 31, 2017, and March 31, 2017, the weighted average life of the multi-family loan portfolio was 2.7 years, 2.6 years, and 3.3 years, respectively.

Multi-family loans that refinance within the first five or seven years are typically subject to an established prepayment penalty schedule. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the then-current loan balance. If a loan extends past the fifth or seventh year and the borrower selects the fixed rate option, the prepayment penalties typically reset to a range of five points to one point over years six through ten or eight through twelve. For example, a ten-year multi-family loan that prepays in year three would generally be expected to pay a prepayment penalty equal to three percentage points of the remaining principal balance. A twelve-year multi-family loan that prepays in year one or two would generally be expected to pay a penalty equal to five percentage points.

Because prepayment penalties are recorded as interest income, they are reflected in the average yields on our loans and interest-earning assets, our interest rate spread and net interest margin, and the level of net interest income we record. No assumptions are involved in the recognition of prepayment income, as such income is only recorded when cash is received.

Our success as a multi-family lender partly reflects the solid relationships we have developed with the market's leading mortgage brokers, who are familiar with our lending practices, our underwriting standards, and our long-standing practice of basing our loans on the cash flows produced by the properties. The process of producing such loans is generally four to six weeks in duration and, because the multi-family market is largely broker-driven, the expense incurred in sourcing such loans is substantially reduced.

At March 31, 2018, the majority of our multi-family loans were secured by rent-regulated rental apartment buildings. In addition, 64.0% of our multi-family loans were secured by buildings in New York City and 5.4% were secured by buildings elsewhere in New York State. The remaining multi-family loans were secured by buildings outside these markets, including in the four other states served by our retail branch offices.



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Our emphasis on multi-family loans is driven by several factors, including their structure, which reduces our exposure to interest rate volatility to some degree. Another factor driving our focus on multi-family lending has been the comparative quality of the loans we originate.

We primarily underwrite our multi-family loans based on the current cash flows produced by the collateral property, with a reliance on the income approach to appraising the properties, rather than the sales approach. The sales approach is subject to fluctuations in the real estate market, as well as general economic conditions, and is therefore likely to be more risky in the event of a downward credit cycle turn. We also consider a variety of other factors, including the physical condition of the underlying property; the net operating income of the mortgaged premises prior to debt service; the DSCR, which is the ratio of the property's net operating income to its debt service; and the ratio of the loan amount to the appraised value of the property.

In addition to requiring a minimum DSCR of 120% on multi-family buildings, we obtain a security interest in the personal property located on the premises, and an assignment of rents and leases. Our multi-family loans generally represent no more than 75% of the lower of the appraised value or the sales price of the underlying property, and typically feature an amortization period of 30 years. In addition, our multi-family loans may contain an initial interest-only period which typically does not exceed two years; however, these loans are underwritten on a fully amortizing basis.

Accordingly, while our multi-family lending niche has not been immune to downturns in the credit cycle, the limited number of losses we have recorded, even in adverse credit cycles, suggests that the multi-family loans we produce involve less credit risk than certain other types of loans. In general, buildings that are subject to rent regulation have tended to be stable, with occupancy levels remaining more or less constant over time. Because the rents are typically below market and the buildings securing our loans are generally maintained in good condition, they have been more likely to retain their tenants in adverse economic times. In addition, we exclude any short-term property tax exemptions and abatement benefits the property owners receive when we underwrite the cash flows of our multi-family loans.

#### *Commercial Real Estate Loans*

CRE loans represented \$7.3 billion, or 18.7%, of total loans held for investment at the end of the current first quarter, a \$69.3 million decrease from the balance at December 31, 2017, and a \$280.5 million decrease from the balance at March 31, 2017. CRE loans represented \$177.1 million, or 7.3%, of loans originated for investment in the current first quarter, reflecting a linked-quarter decrease of \$169.8 million and a year-over-year decrease of \$73.2 million.

At March 31, 2018, the average CRE loan had a principal balance of \$5.8 million, up modestly from the average principal balance at both December 31, 2017 and March 31, 2017.

The CRE loans we produce are secured by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties. At March 31, 2018, 68.9% of our CRE loans were secured by properties in New York City, while properties on Long Island accounted for 11.8%. Other parts of New York State accounted for 2.6% of the properties securing our CRE credits, while all other states accounted for 16.7%, combined.

The terms of our CRE loans are similar to the terms of our multi-family credits, and the same prepayment penalties also apply. Furthermore, our CRE loans also tend to refinance in approximately three years of origination; the weighted average life of the CRE portfolio was 2.9 years, 3.0 years, and 3.1 years at March 31, 2018, December 31, 2017, and March 31, 2017, respectively.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property's current income stream and DSCR. The approval of a loan also depends on the borrower's credit history, profitability, and expertise in property management, and generally requires a minimum DSCR of 130% and a maximum LTV of 65%. Furthermore, the origination of CRE loans typically requires a security interest in the fixtures, equipment, and other personal property of the borrower and/or an assignment of the rents and/or leases. In addition, CRE loans may contain an interest-only period which typically does not exceed three years. However, these loans are underwritten on a fully amortizing basis.

#### *One-to-Four Family Loans*

Reflecting our announcement that the Company was exiting the mortgage banking business, the March 31, 2018 balance of one-to-four family loans held for investment was relatively unchanged sequentially at \$465.7 million, representing 1.2% of total loans held for investment at that date.

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### *Acquisition, Development, and Construction Loans*

The balance of ADC loans increased \$5.9 million to \$441.8 million sequentially, representing 1.1% of total held-for-investment loans at the current first-quarter end. In the first quarter of 2018, we originated ADC loans of \$15.3 million, a \$6.3 million decrease from the trailing-quarter volume and a year-over-year increase of \$2.4 million.

Because ADC loans are generally considered to have a higher degree of credit risk, especially during a downturn in the credit cycle, borrowers are required to provide a guarantee of repayment and completion. In the three months ended March 31, 2017, we recovered losses against guarantees of \$100,000. There were no recoveries in the current quarter.

### *C&I Loans*

Our C&I loans are divided into two categories: specialty finance loans and leases and other C&I loans, as further described below.

#### Specialty Finance Loans and Leases

At March 31, 2018, specialty finance loans and leases represented \$1.5 billion of total loans held for investment, virtually unchanged from the level at December 31, 2017 and up \$231.1 million from the \$1.3 billion level at March 31, 2017. For the three months ended March 31, 2018, we originated \$396.9 million of specialty finance loans and leases compared to \$547.7 million for the three months ended December 31, 2017 and \$269.2 million for the three months ended March 31, 2017.

We produce our specialty finance loans and leases through a subsidiary that is staffed by a group of industry veterans with expertise in originating and underwriting senior securitized debt and equipment loans and leases. The subsidiary participates in syndicated loans that are brought to them, and equipment loans and leases that are assigned to them, by a select group of nationally recognized sources, and are generally made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide.

The specialty finance loans and leases we fund fall into three categories: asset-based lending, dealer floor-plan lending, and equipment loan and lease financing. Each of these credits is secured with a perfected first security interest in, or outright ownership of, the underlying collateral, and structured as senior debt or as a non-cancelable lease. Asset-based and dealer floor-plan loans are priced at floating rates predominately tied to LIBOR, while our equipment financing credits are priced at fixed rates at a spread over Treasuries.

Since launching our specialty finance business in the third quarter of 2013, no losses have been recorded on any of the loans or leases in this portfolio.

#### Other C&I Loans

In the three months ended March 31, 2018, other C&I loans totaled \$522.0 million, compared to \$500.8 million at December 31, 2017.

Included in the quarter-end balance were taxi medallion-related loans of \$95.4 million, representing 0.25% of total held-for-investment loans at March 31, 2018.

In contrast to the loans produced by our specialty finance subsidiary, the other C&I loans we produce are primarily made to small and mid-size businesses in the five boroughs of New York City and on Long Island. Such loans are tailored to meet the specific needs of our borrowers, and include term loans, demand loans, revolving lines of credit, and, to a much lesser extent, loans that are partly guaranteed by the Small Business Administration.

A broad range of other C&I loans, both collateralized and unsecured, are made available to businesses for working capital (including inventory and accounts receivable), business expansion, the purchase of machinery and equipment, and other general corporate needs. In determining the term and structure of other C&I loans, several factors are considered, including the purpose, the collateral, and the anticipated sources of repayment. Other C&I loans are typically secured by business assets and personal guarantees of the borrower, and include financial covenants to monitor the borrower's financial stability.

The interest rates on our other C&I loans can be fixed or floating, with floating-rate loans being tied to prime or some other market index, plus an applicable spread. Our floating-rate loans may or may not feature a floor rate of interest. The decision to require a floor on other C&I loans depends on the level of competition we face for such loans from other institutions, the direction of market interest rates, and the profitability of our relationship with the borrower.

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***Other Loans***

At March 31, 2018, other loans totaled \$8.2 million and consisted primarily of a variety of consumer loans, most of which were overdraft loans and loans to non-profit organizations. We currently do not offer home equity loans or lines of credit.

***Lending Authority***

The loans we originate for investment are subject to federal and state laws and regulations, and are underwritten in accordance with loan underwriting policies approved by the Management Credit Committee, the Board Mortgage Committee, the Credit Committee of the Board, and the respective Boards of Directors of the Banks.

Prior to 2017, all loans originated by the Banks were presented to the Mortgage Committee or the Credit Committee of the Board of Directors, as applicable. Furthermore, all loans of \$20.0 million or more originated by the Community Bank, and all loans of \$10.0 million or more originated by the Commercial Bank, were reported to the applicable Board of Directors.

Effective January 27, 2017, all loans other than C&I loans less than or equal to \$3.0 million are required to be presented to the Management Credit Committee for approval. All multi-family, CRE, and other C&I loans in excess of \$5.0 million, and specialty finance loans in excess of \$15.0 million, are also required to be presented to the Mortgage Committee or the Credit Committee, as applicable, so that the Committees can review the loans' associated risks. The Committees have authority to direct changes in lending practices as they deem necessary or appropriate in order to address individual or aggregate risks and credit exposures in accordance with the Bank's strategic objectives and risk appetites.

All mortgage loans in excess of \$50.0 million and all other C&I loans in excess of \$5.0 million require approval by the Mortgage Committee or the Credit Committee. Credit Committee approval also is required for specialty finance loans in excess of \$15.0 million.

In addition, all loans of \$20.0 million or more originated by the Community Bank, and all loans of \$10.0 million or more originated by the Commercial Bank, continue to be reported to the applicable Board of Directors, and all C&I loans less than or equal to \$3.0 million continue to be approved by line-of-business personnel.

At March 31, 2018, the largest loan in our portfolio was a \$287.5 million loan originated by the Community Bank on June 28, 2013 to the owner of a commercial office building located in Manhattan. As of the date of this report, the loan has been current since origination. The balance of the loan was unchanged from both the prior quarter and the year-ago quarter.

**Table of Contents****Geographical Analysis of the Portfolio of Non-Covered Loans Held for Investment**

The following table presents a geographical analysis of the multi-family and CRE loans in our held-for-investment loan portfolio at March 31, 2018:

(dollars in thousands)	At March 31, 2018			
	Multi-Family Loans		Commercial Real Estate Loans	
	Amount	Percent of Total	Amount	Percent of Total
<b>New York City:</b>				
Manhattan	\$ 7,466,366	26.06%	\$ 3,642,155	50.22%
Brooklyn	4,621,971	16.13	562,990	7.76
Bronx	3,825,954	13.35	94,861	1.31
Queens	2,332,741	8.14	639,326	8.82
Staten Island	76,940	0.27	54,505	0.75
<b>Total New York City</b>	<b>\$ 18,323,972</b>	<b>63.95%</b>	<b>\$ 4,993,837</b>	<b>68.86%</b>
Long Island	529,353	1.84	858,760	11.84
Other New York State	1,024,509	3.58	191,670	2.64
All other states	8,778,400	30.63	1,208,622	16.66
<b>Total</b>	<b>\$ 28,656,234</b>	<b>100.00%</b>	<b>\$ 7,252,889</b>	<b>100.00%</b>

At March 31, 2018, the largest concentration of ADC loans held for investment was located in New York City, with a total of \$348.2 million. The majority of our other loans held for investment were secured by properties and/or businesses located in Metro New York.

***Non-Covered Loans Held for Sale***

At March 31, 2018, non-covered loans held for sale were \$31.4 million, down \$3.9 million from the level at December 31, 2017 and \$184.6 million from the level at March 31, 2017. The year-over-year decline is attributable to the Company's exit from the mortgage banking business in the third quarter of last year.

***Outstanding Loan Commitments***

At March 31, 2018, we had outstanding loan commitments of \$2.3 billion, up \$375.8 million from the level at December 31, 2017.

Multi-family, CRE, and ADC loans together represented \$1.0 billion of held-for-investment loan commitments at the end of the first quarter, while other loans represented \$1.3 billion, respectively. Included in the latter amount were commitments to originate specialty finance loans and leases of \$891.4 million and commitments to originate other C&I loans of \$327.8 million.

In addition to loan commitments, we had commitments to issue financial stand-by, performance stand-by, and commercial letters of credit totaling \$340.7 million at March 31, 2018, a \$1.3 million increase from the volume at December 31st. The fees we collect in connection with the issuance of letters of credit are included in Fee Income in the Consolidated Statements of Income and Comprehensive Income.

**Asset Quality**

***Non-Covered Loans Held for Investment and Non-Covered Repossessed Assets***

Non-performing non-covered assets represented \$88.8 million, or 0.18%, of total non-covered assets at March 31, 2018, as compared to \$90.1 million, or 0.18% at December 31, 2017 and \$70.4 million, or 0.15%, of total non-covered assets, at March 31, 2017.

In addition, the Company recorded net charge-offs of \$6.5 million during the current first quarter, representing 0.02% of average loans.

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The following table sets forth the changes in non-performing non-covered loans over the three months ended March 31, 2018:

(in thousands)	
Balance at December 31, 2017	\$ 73,682
New non-accrual	15,539
Charge-offs	(4,127)
Transferred to repossessed assets	(800)
Loan payoffs, including dispositions and principal pay-downs	(10,908)
Restored to performing status	
<b>Balance at March 31, 2018</b>	<b>\$ 73,386</b>

The following table presents our non-performing loans by loan type and the changes in the respective balances from December 31, 2017 to March 31, 2018:

(dollars in thousands)	March 31, 2018	December 31, 2017	Change from December 31, 2017 to March 31, 2018	
			Amount	Percent
<b>Non-Performing Loans:</b>				
Non-accrual mortgage loans:				
Multi-family	\$ 11,881	\$ 11,078	\$ 803	7.25%
Commercial real estate	13,611	6,659	6,952	104.40
One-to-four family	1,949	1,966	(17)	(0.86)
Acquisition, development, and construction		6,200	(6,200)	(100.00)
<b>Total non-accrual mortgage loans</b>	<b>27,441</b>	<b>25,903</b>	<b>1,538</b>	<b>5.94</b>
Non-accrual other loans <sup>(1)</sup>	45,945	47,779	(1,834)	(3.84)
<b>Total non-performing loans</b>	<b>\$ 73,386</b>	<b>\$ 73,682</b>	<b>\$ (296)</b>	<b>(0.40)%</b>

(1) Includes \$44.8 million and \$46.7 million of non-accrual taxi medallion-related loans at March 31, 2018 and December 31, 2017, respectively.

A loan generally is classified as a non-accrual loan when it is 90 days or more past due or when it is deemed to be impaired because we no longer expect to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. At March 31, 2018 and December 31, 2017, all of our non-performing loans were non-accrual loans. A loan is generally returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.



We monitor non-accrual loans both within and beyond our primary lending area, which is defined as including: (a) the counties that comprise our CRA Assessment area, and (b) the entirety of the following states: Arizona; Florida; New York; New Jersey; Ohio; and Pennsylvania, in the same manner. Monitoring loans generally involves inspecting and re-appraising the collateral properties; holding discussions with the principals and managing agents of the borrowing entities and/or retained legal counsel, as applicable; requesting financial, operating, and rent roll information; confirming that hazard insurance is in place or force-placing such insurance; monitoring tax payment status and advancing funds as needed; and appointing a receiver, whenever possible, to collect rents, manage the operations, provide information, and maintain the collateral properties.

It is our policy to order updated appraisals for all non-performing loans, irrespective of loan type, that are collateralized by multi-family buildings, CRE properties, or land, in the event that such a loan is 90 days or more past due, and if the most recent appraisal on file for the property is more than one year old. Appraisals are ordered annually until such time as the loan becomes performing and is returned to accrual status. It is not our policy to obtain updated appraisals for performing loans. However, appraisals may be ordered for performing loans when a borrower requests an increase in the loan amount, a modification in loan terms, or an extension of a maturing loan. We do not analyze current LTVs on a portfolio-wide basis.

Non-performing loans are reviewed regularly by management and discussed on a monthly basis with the Board Mortgage Committee, the Management Credit Committee, the Credit Committee of the Board, and the Boards of Directors of the respective Banks, as applicable. In accordance with our charge-off policy, collateral-dependent non-performing loans are written down to their current appraised values, less certain transaction costs. Workout specialists from our Loan Workout Unit actively pursue borrowers who are delinquent in repaying their loans in an effort to collect payment. In addition, outside counsel with experience in foreclosure proceedings are retained to institute such action with regard to such borrowers.

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Properties that are acquired through foreclosure are classified as OREO, and are recorded at fair value at the date of acquisition, less the estimated cost of selling the property. Subsequent declines in the fair value of OREO are charged to earnings and are included in non-interest expense. It is our policy to require an appraisal and an environmental assessment of properties classified as OREO before foreclosure, and to re-appraise the properties on an as-needed basis, and not less than annually, until they are sold. We dispose of such properties as quickly and prudently as possible, given current market conditions and the property's condition.

To mitigate the potential for credit losses, we underwrite our loans in accordance with credit standards that we consider to be prudent. In the case of multi-family and CRE loans, we look first at the consistency of the cash flows being generated by the property to determine its economic value using the income approach, and then at the market value of the property that collateralizes the loan. The amount of the loan is then based on the lower of the two values, with the economic value more typically used.

The condition of the collateral property is another critical factor. Multi-family buildings and CRE properties are inspected from rooftop to basement as a prerequisite to approval, with a member of the Mortgage or Credit Committee participating in inspections on multi-family loans to be originated in excess of \$7.5 million, and a member of the Mortgage or Credit Committee participating in inspections on CRE loans to be originated in excess of \$4.0 million. Furthermore, independent appraisers, whose appraisals are carefully reviewed by our experienced in-house appraisal officers and staff, perform appraisals on collateral properties. In many cases, a second independent appraisal review is performed.

In addition, we work with a select group of mortgage brokers who are familiar with our credit standards and whose track record with our lending officers is typically greater than ten years. Furthermore, in New York City, where the majority of the buildings securing our multi-family loans are located, the rents that tenants may be charged on certain apartments are typically restricted under certain rent-control or rent-stabilization laws. As a result, the rents that tenants pay for such apartments are generally lower than current market rents. Buildings with a preponderance of such rent-regulated apartments are less likely to experience vacancies in times of economic adversity.

Reflecting the strength of the underlying collateral for these loans and the collateral structure, a relatively small percentage of our non-performing multi-family loans have resulted in losses over time.

To further manage our credit risk, our lending policies limit the amount of credit granted to any one borrower, and typically require minimum DSCRs of 120% for multi-family loans and 130% for CRE loans. Although we typically lend up to 75% of the appraised value on multi-family buildings and up to 65% on commercial properties, the average LTVs of such credits at origination were below those amounts at March 31, 2018. Exceptions to these LTV limitations are minimal and are reviewed on a case-by-case basis.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property's current income stream and DSCR. The approval of a CRE loan also depends on the borrower's credit history, profitability, and expertise in property management. Given that our CRE loans are underwritten in accordance with underwriting standards that are similar to those applicable to our multi-family credits, the percentage of our non-performing CRE loans that have resulted in losses has been comparatively small over time.

Multi-family and CRE loans are generally originated at conservative LTVs and DSCRs, as previously stated. Low LTVs provide a greater likelihood of full recovery and reduce the possibility of incurring a severe loss on a credit; in many cases, they reduce the likelihood of the borrower walking away from the property. Although borrowers may

default on loan payments, they have a greater incentive to protect their equity in the collateral property and to return their loans to performing status. Furthermore, in the case of multi-family loans, the cash flows generated by the properties are generally below-market and have significant value.

With regard to ADC loans, we typically lend up to 75% of the estimated as-completed market value of multi-family and residential tract projects; however, in the case of home construction loans to individuals, the limit is 80%. With respect to commercial construction loans, we typically lend up to 65% of the estimated as-completed market value of the property. Credit risk is also managed through the loan disbursement process. Loan proceeds are disbursed periodically in increments as construction progresses, and as warranted by inspection reports provided to us by our own lending officers and/or consulting engineers.

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To minimize the risk involved in specialty finance lending and leasing, each of our credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancellable lease. To further minimize the risk involved in specialty finance lending and leasing, we re-underwrite each transaction. In addition, we retain outside counsel to conduct a further review of the underlying documentation.

Other C&I loans are typically underwritten on the basis of the cash flows produced by the borrower's business, and are generally collateralized by various business assets, including, but not limited to, inventory, equipment, and accounts receivable. As a result, the capacity of the borrower to repay is substantially dependent on the degree to which the business is successful. Furthermore, the collateral underlying the loan may depreciate over time, may not be conducive to appraisal, and may fluctuate in value, based upon the operating results of the business. Accordingly, personal guarantees are also a normal requirement for other C&I loans.

In addition, one-to-four family loans, ADC loans, and other loans represented 1.2%, 1.1%, and 5.3%, respectively, of total non-covered loans held for investment at March 31, 2018, comparable to, or consistent with, the levels at both December 31, 2017 and March 31, 2017. Furthermore, at the end of the current first quarter, only 2.2% of our other loans and 0.42% of one-to-four family loans were non-performing at that date, while we had no non-performing ADC loans.

The procedures we follow with respect to delinquent loans are generally consistent across all categories, with late charges assessed, and notices mailed to the borrower, at specified dates. We attempt to reach the borrower by telephone to ascertain the reasons for delinquency and the prospects for repayment. When contact is made with a borrower at any time prior to foreclosure or recovery against collateral property, we attempt to obtain full payment, and will consider a repayment schedule to avoid taking such action. Delinquencies are addressed by our Loan Workout Unit and every effort is made to collect rather than initiate foreclosure proceedings.

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The following table presents our non-covered loans 30 to 89 days past due by loan type and the changes in the respective balances from December 31, 2017 to March 31, 2018:

(dollars in thousands)	March 31, 2018	December 31, 2017	Change from December 31, 2017 to March 31, 2018	
			Amount	Percent
<b>Non-Covered Loans 30-89 Days Past Due:</b>				
Multi-family	\$	\$ 1,258	\$ (1,258)	(100.00)%
Commercial real estate	3,191	13,227	(10,036)	(75.88)
One-to-four family	397	585	(188)	(32.14)
Other loans <sup>(1)</sup>	6,763	2,719	4,044	148.73
Total non-covered loans 30-89 days past due	\$ 10,351	\$ 17,789	\$ (7,438)	(41.81)%

(1) Includes \$6.7 million and \$2.7 million of non-accrual taxi medallion-related loans at March 31, 2018 and December 31, 2017, respectively.

Fair values for all multi-family buildings, CRE properties, and land are determined based on the appraised value. If an appraisal is more than one year old and the loan is classified as either non-performing or as an accruing TDR, then an updated appraisal is required to determine fair value. Estimated disposition costs are deducted from the fair value of the property to determine estimated net realizable value. In the instance of an outdated appraisal on an impaired loan, we adjust the original appraisal by using a third-party index value to determine the extent of impairment until an updated appraisal is received.

While we strive to originate loans that will perform fully, adverse economic and market conditions, among other factors, can adversely impact a borrower's ability to repay.

Reflecting management's assessment of the allowance for non-covered loan losses, we recorded a \$9.6 million provision for such losses in the current first quarter, as compared to \$2.9 million and \$1.8 million, respectively, in the trailing and year-earlier three months. Reflecting the first-quarter provision, and the aforementioned net charge-offs, the allowance for losses on non-covered loans increased to \$161.1 million at March 31, 2018. This represented 0.41% of total non-covered loans and 219.58% of non-performing non-covered loans at that date.

Based upon all relevant and available information as of the end of the current first quarter, management believes that the allowance for losses on non-covered loans was appropriate at that date.

At March 31, 2018, our three largest non-performing loans were a CRE loan with a balance of \$9.5 million, a C&I loan with a balance of \$7.4 million, and a multi-family loan with a balance of \$7.0 million.

**Troubled Debt Restructurings**

In an effort to proactively manage delinquent loans, we have selectively extended to certain borrowers such concessions as rate reductions and extensions of maturity dates, as well as forbearance agreements, when such

borrowers have exhibited financial difficulty. In accordance with GAAP, we are required to account for such loan modifications or restructurings as TDRs.

The eligibility of a borrower for work-out concessions of any nature depends upon the facts and circumstances of each transaction, which may change from period to period, and involve management's judgment regarding the likelihood that the concession will result in the maximum recovery for the Company.

Loans modified as TDRs are placed on non-accrual status until we determine that future collection of principal and interest is reasonably assured. This generally requires that the borrower demonstrate performance according to the restructured terms for at least six consecutive months. At March 31, 2018, non-accrual TDRs included taxi medallion-related loans with a combined balance of \$26.9 million.

At March 31, 2018, loans on which concessions were made with respect to rate reductions and/or extensions of maturity dates totaled \$44.6 million; loans in connection with which forbearance agreements were reached totaled \$1.8 million at that date.

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Based on the number of loans performing in accordance with their revised terms, our success rates for restructured multi-family loans, CRE loans, and ADC loans were 100%. The success rates for restructured one-to-four family and other loans were 50% and 81%, respectively, at March 31, 2018.

**Analysis of Troubled Debt Restructurings**

The following table sets forth the changes in our TDRs over the three months ended March 31, 2018:

(in thousands)	Accruing	Non-Accrual	Total
Balance at December 31, 2017	\$ 9,653	\$ 35,903	\$ 45,556
New TDRs	1,800	2,020	3,820
Charge-offs		(350)	(350)
Loan payoffs, including dispositions and principal pay-downs	(1,081)	(1,556)	(2,637)
Balance at March 31, 2018	\$ 10,372	\$ 36,017	\$ 46,389

On a limited basis, we may provide additional credit to a borrower after a loan has been placed on non-accrual status or classified as a TDR if, in management's judgment, the value of the property after the additional loan funding is greater than the initial value of the property plus the additional loan funding amount. During the three months ended March 31, 2018, no such additions were made. Furthermore, the terms of our restructured loans typically would not restrict us from cancelling outstanding commitments for other credit facilities to a borrower in the event of non-payment of a restructured loan.

Except for the non-accrual loans and TDRs disclosed in this filing, we did not have any potential problem loans at the end of the current first quarter that would have caused management to have serious doubts as to the ability of a borrower to comply with present loan repayment terms and that would have resulted in such disclosure if that were the case.

**Table of Contents****Asset Quality Analysis**

The following table presents information regarding our consolidated allowance for loan losses, our non-performing assets, and our 30 to 89 days past due loans at March 31, 2018 and December 31, 2017.

(dollars in thousands)	<b>At or For the Three Months Ended March 31, 2018</b>	<b>At or For the Year Ended December 31, 2017</b>
<b>Allowance for Loan Losses:</b>		
Balance at beginning of period	\$ 158,046	\$ 156,524
Provision for losses	9,571	60,943
Recovery from allowance on PCI loans		1,766
<b>Charge-offs:</b>		
Multi-family		(279)
Commercial real estate	(3,191)	
One-to-four family residential		(96)
Acquisition, development, and construction	(2,220)	
Other loans	(1,580)	(62,975)
<b>Total charge-offs</b>	<b>(6,991)</b>	<b>(63,350)</b>
<b>Recoveries:</b>		
Multi-family		28
Commercial real estate	26	408
One-to-four family residential		
Acquisition, development, and construction	84	169
Other loans	404	1,558
<b>Total recoveries</b>	<b>514</b>	<b>2,163</b>
<b>Net charge-offs</b>	<b>(6,477)</b>	<b>(61,187)</b>
Balance at end of period	\$ 161,140	\$ 158,046
<b>Non-Performing Assets:</b>		
<b>Non-accrual mortgage loans:</b>		
Multi-family	\$ 11,881	\$ 11,078
Commercial real estate	13,611	6,659
One-to-four family residential	1,949	1,966
Acquisition, development, and construction		6,200
<b>Total non-accrual mortgage loans</b>	<b>\$ 27,441</b>	<b>25,903</b>
Other non-accrual loans	45,945	47,779



Total non-performing loans	\$	73,386	\$	73,682
Reposessed assets <sup>(1)</sup>		15,458		16,400
<b>Total non-performing assets</b>	<b>\$</b>	<b>88,844</b>	<b>\$</b>	<b>90,082</b>
<b>Asset Quality Measures:</b>				
Non-performing loans to total loans		0.19%		0.19%
Non-performing assets to total assets		0.18		0.18
Allowance for loan losses to non-performing loans		219.58		214.50
Allowance for loan losses to total loans		0.41		0.41
Net charge-offs during the period to average loans outstanding during the period		0.02		0.16
<b>Loans 30-89 Days Past Due:</b>				
Multi-family	\$		\$	1,258
Commercial real estate		3,191		13,227
One-to-four family residential		397		585
Other loans		6,763		2,719
<b>Total loans 30-89 days past due <sup>(2)</sup></b>	<b>\$</b>	<b>10,351</b>	<b>\$</b>	<b>17,789</b>

(1) Includes \$8.8 million and \$8.2 million of reposessed taxi medallions at March 31, 2018 and December 31, 2017, respectively.

(2) Includes \$6.7 million and \$2.7 million of taxi medallion loans at March 31, 2018 and December 31, 2017, respectively.

**Table of Contents****Geographical Analysis of Non-Performing Loans**

The following table presents a geographical analysis of our non-performing loans at March 31, 2018:

(in thousands)	
New York	\$ 50,010
New Jersey	19,653
Connecticut	1,780
Arizona	1,140
All other states	803
 Total non-performing loans	 \$ 73,386

**Securities**

Securities declined \$107.4 million from the year-end 2017 balance and \$268.3 million from the year-ago 2017 balance to \$3.4 billion, representing 6.9% of total assets, at March 31, 2018. During the second quarter of 2017, the Company reclassified its entire securities portfolio as Available-for-Sale. Accordingly, at March 31, 2018 and December 31, 2017, we had no securities designated as Held-to-Maturity compared to \$3.6 billion designated as such at March 31, 2017.

**Federal Home Loan Bank Stock**

As members of the FHLB-NY, the Community Bank and the Commercial Bank are required to acquire and hold shares of its capital stock, and to the extent FHLB borrowings are utilized, may further invest in FHLB stock. At March 31, 2018 and December 31, 2017, the Community Bank held FHLB-NY stock in the amount of \$620.0 million and \$588.7 million, respectively, and the Commercial Bank held FHLB-NY stock of \$3.0 million and \$15.1 million, respectively. FHLB-NY stock continued to be valued at par, with no impairment required at that date.

Dividends from the FHLB-NY to the Community Bank totaled \$9.3 million and \$8.0 million, respectively, in the three months ended March 31, 2018 and 2017; dividends from the FHLB-NY to the Commercial Bank totaled \$248,000 and \$285,000, respectively, in the corresponding periods.

**Bank-Owned Life Insurance**

BOLI is recorded at the total cash surrender value of the policies in the Consolidated Statements of Condition, and the income generated by the increase in the cash surrender value of the policies is recorded in Non-Interest Income in the Consolidated Statements of Income and Comprehensive Income. Reflecting an increase in the cash surrender value of the underlying policies, our investment in BOLI declined \$1.5 million to \$965.7 million in the three months ended March 31, 2018.

**Goodwill**

We record goodwill in our Consolidated Statements of Condition in connection with certain of our business combinations. Goodwill, which is tested at least annually for impairment, refers to the difference between the purchase price and the fair value of an acquired company's assets, net of the liabilities assumed. Goodwill totaled

\$2.4 billion at both March 31, 2018 and December 31, 2017. For more information about the Company's goodwill, see the discussion of Critical Accounting Policies earlier in this report.

### **Sources of Funds**

The Parent Company (i.e., the Company on an unconsolidated basis) has three primary funding sources for the payment of dividends, share repurchases, and other corporate uses: dividends paid to the Company by the Banks; capital raised through the issuance of stock; and funding raised through the issuance of debt instruments.

On a consolidated basis, our funding primarily stems from a combination of the following sources: deposits; borrowed funds, primarily in the form of wholesale borrowings; the cash flows generated through the repayment and sale of loans; and the cash flows generated through the repayment and sale of securities.

Loan repayments and sales totaled \$1.9 billion in the three months ended March 31, 2018, down from the \$2.6 billion recorded in the year-earlier three months. Cash flows from the repayment and sales of securities totaled \$346.6 million and \$224.1 million, respectively, in the corresponding periods, while purchases of securities totaled \$292.9 million and \$97.0 million, respectively.

### ***Deposits***

Our ability to retain and attract deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay, the types of products we offer, and the attractiveness of their terms. That said, there have been times that we've chosen not to compete actively for deposits, depending on our access to deposits through acquisitions, the availability of lower-cost funding sources, the impact of competition on pricing, and the need to fund our loan demand.

In the three months ended March 31, 2018, total deposits of \$29.2 billion were up \$133.3 million as compared to the level recorded at December 31, 2017. CDs represented 31.0% of total deposits at the end of the first quarter, and total deposits represented 58.9% of total assets at that date.

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Included in the March 31st balance of deposits were institutional deposits of \$1.7 billion and municipal deposits of \$975.9 million, as compared to \$2.2 billion and \$999.4 million, respectively, at December 31, 2017. Brokered deposits dropped \$39.4 million during this timeframe, to \$3.9 billion, reflecting a \$229.0 million decrease in brokered money market accounts to \$2.4 billion and a \$250.7 million increase in brokered interest-bearing checking accounts to \$1.0 billion. In addition, at March 31, 2018, we had \$506.7 million of brokered CDs, a decrease of \$61.1 million from December 31, 2017. The extent to which we accept brokered deposits depends on various factors, including the availability and pricing of such wholesale funding sources, and the availability and pricing of other sources of funds.

***Borrowed Funds***

Borrowed funds consist primarily of wholesale borrowings (i.e., FHLB-NY advances, repurchase agreements, and federal funds purchased) and, to a far lesser extent, junior subordinated debentures. In the three months ended March 31, 2018, the balance of borrowed funds increased \$430.1 million from the trailing quarter and \$130.3 million from year end 2017 to \$13.3 billion, representing 26.9% of total assets, at that date.

***Wholesale Borrowings***

Wholesale borrowings rose \$430.0 million from the trailing quarter and rose \$130.0 million from the year earlier amount to \$13.0 billion, representing 26.1% of total assets, at quarter end.

FHLB-NY advances rose \$430.0 million since December 31, 2017, to \$12.5 billion, while the balance of repurchase agreements was \$450.0 million at both periods. There were no federal funds purchased at either March 31, 2018 or December 31, 2017.

***Junior Subordinated Debentures***

Junior subordinated debentures totaled \$359.3 million at the end of the current first quarter, comparable to the balance at December 31st.

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### **Risk Definitions**

The following section outlines the definitions of interest rate risk, market risk, and liquidity risk, and how the Company manages market and interest rate risk:

**Interest Rate Risk** Interest rate risk is the risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting Company activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in a bank's products (options risk). The evaluation of interest rate risk must consider the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income (e.g. prepayment income) which is sensitive to changes in interest rates. In those situations where trading is separately managed, this refers to structural positions and not trading portfolios.

**Market Risk** Market risk is the risk to earnings or capital arising from changes in the value of portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking activities in interest rate, foreign exchange, equity, and commodities markets. Many banks use the term "price risk" interchangeably with market risk; this is because market risk focuses on the changes in market factors (e.g., interest rates, market liquidity, and volatilities) that affect the value of traded instruments. The primary accounts affected by market risk are those which are revalued for financial presentation (e.g., trading accounts for securities, derivatives, and foreign exchange products).

**Liquidity Risk** Liquidity risk is the risk to earnings or capital arising from a bank's inability to meet its obligations when they become due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from a bank's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

### **Management of Market and Interest Rate Risk**

We manage our assets and liabilities to reduce our exposure to changes in market interest rates. The asset and liability management process has three primary objectives: to evaluate the interest rate risk inherent in certain balance sheet accounts; to determine the appropriate level of risk, given our business strategy, risk appetite, operating environment, capital and liquidity requirements, and performance objectives; and to manage that risk in a manner consistent with guidelines approved by the Boards of Directors of the Company, the Community Bank, and the Commercial Bank.

#### ***Market and Interest Rate Risk***

As a financial institution, we are focused on reducing our exposure to interest rate volatility. Changes in interest rates pose the greatest challenge to our financial performance, as such changes can have a significant impact on the level of income and expense recorded on a large portion of our interest-earning assets and interest-bearing liabilities, and on the market value of all interest-earning assets, other than those possessing a short term to maturity. To reduce our exposure to changing rates, the Boards of Directors and management monitor interest rate sensitivity on a regular or as needed basis so that adjustments to the asset and liability mix can be made when deemed appropriate.

The actual duration of held-for-investment mortgage loans and mortgage-related securities can be significantly impacted by changes in prepayment levels and market interest rates. The level of prepayments may be impacted by a variety of factors, including the economy in the region where the underlying mortgages were originated; seasonal factors; demographic variables; and the assumability of the underlying mortgages. However, the largest determinants of prepayments are interest rates and the availability of refinancing opportunities.

In the first three months of 2018, we managed our interest rate risk by taking the following actions: (1) We continued to emphasize the origination and retention of intermediate-term assets, primarily in the form of multi-family and CRE loans; and (2) We continued the origination of certain C&I loans that feature floating interest rates.

### *Interest Rate Sensitivity Analysis*

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time frame if it will mature or reprice within that period of time. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time frame and the amount of interest-bearing liabilities maturing or repricing within that same period of time.

In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in the cost of its interest-bearing liabilities than it would in the yield on its interest-earning assets, thus producing a decline in its net interest income. Conversely, in a declining rate environment, an institution with a negative gap would generally be expected to experience a lesser reduction in the yield on its interest-earning assets than it would in the cost of its interest-bearing liabilities, thus producing an increase in its net interest income.

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In a rising interest rate environment, an institution with a positive gap would generally be expected to experience a greater increase in the yield on its interest-earning assets than it would in the cost of its interest-bearing liabilities, thus producing an increase in its net interest income. Conversely, in a declining rate environment, an institution with a positive gap would generally be expected to experience a lesser reduction in the cost of its interest-bearing liabilities than it would in the yield on its interest-earning assets, thus producing a decline in its net interest income.

At March 31, 2018, our one-year gap was a negative 19.66%, as compared to a negative 19.57% at December 31, 2017. The nine-bp change was largely due to an increase in cash balances as a result of the sale of the mortgage banking operations and borrowings maturing or repricing within one year, combined with a decrease in loans and deposits maturing or repricing within that time.

The table on the following page sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2018 which, based on certain assumptions stemming from our historical experience, are expected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown as repricing or maturing during a particular time period were determined in accordance with the earlier of (1) the term to repricing, or (2) the contractual terms of the asset or liability.

The table provides an approximation of the projected repricing of assets and liabilities at March 31, 2018 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For residential mortgage-related securities, prepayment rates are forecasted at a weighted average CPR of 5% per annum; for multi-family and CRE loans, prepayment rates are forecasted at weighted average CPRs of 14% and 8% per annum, respectively. Borrowed funds were not assumed to prepay.

Savings, interest-bearing checking and money market accounts were assumed to decay based on a comprehensive statistical analysis that incorporated our historical deposit experience. Based on the results of this analysis, savings accounts were assumed to decay at a rate of 46% for the first five years and 54% for years six through ten. Interest-bearing checking accounts were assumed to decay at a rate of 70% for the first five years and 30% for years six through ten. The decay assumptions reflect the prolonged low interest rate environment and the uncertainty regarding future depositor behavior. Including those accounts having specified repricing dates, money market accounts were assumed to decay at a rate of 88% for the first five years and 12% for years six through ten.

**Table of Contents****Interest Rate Sensitivity Analysis**

	<b>At March 31, 2018</b>						
(Dollars in thousands)	Three Months or Less	Four to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years	More Than Five Years to 10 Years	More Than 10 Years	Total
<b>INTEREST-EARNING ASSETS:</b>							
Mortgage and other loans <sup>(1)</sup>	\$ 2,970,741	\$ 4,533,326	\$ 16,202,781	\$ 12,032,620	\$ 2,971,453	\$ 136,518	\$ 38,847,439
Mortgage-related securities <sup>(2)(3)</sup>	23,622	60,260	506,087	625,806	1,041,536	255,453	2,512,764
Other securities <sup>(2)</sup>	738,270	208,441	3,926	15,866	379,905	187,838	1,534,245
Interest-earning cash and cash equivalents	2,547,336						2,547,336
<b>Total interest-earning assets</b>	<b>6,279,969</b>	<b>4,802,027</b>	<b>16,712,794</b>	<b>12,674,292</b>	<b>4,392,894</b>	<b>579,809</b>	<b>45,441,785</b>
<b>INTEREST-BEARING LIABILITIES:</b>							
Interest-bearing checking and money market accounts	6,935,627	354,076	684,332	1,991,702	2,668,200		12,633,937
Savings accounts	922,621	970,093	234,684	192,725	2,699,575		5,019,698
Certificates of deposit	2,496,243	4,600,337	1,910,827	48,836	7,077		9,063,320
Borrowed funds	1,263,926	3,303,500	7,756,000	875,000		145,333	13,343,759
<b>Total interest-bearing liabilities</b>	<b>11,618,417</b>	<b>9,228,006</b>	<b>10,585,843</b>	<b>3,108,263</b>	<b>5,374,852</b>	<b>145,333</b>	<b>40,060,715</b>
Interest rate sensitivity gap per period <sup>(4)</sup>	\$ (5,338,448)	\$ (4,425,979)	\$ 6,126,951	\$ 9,566,029	\$ (981,958)	\$ 434,476	\$ 5,381,071
Cumulative interest rate sensitivity gap	\$ (5,338,448)	\$ (9,764,427)	\$ (3,637,476)	\$ 5,928,553	\$ 4,946,595	\$ 5,381,071	
Cumulative interest rate sensitivity gap as a percentage of total assets	(10.75)%	(19.66)%	(7.33)%	11.94%	9.96%	10.84%	
Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities	54.05%	53.16%	88.43%	117.16%	112.39%	113.43%	



- (1) For the purpose of the gap analysis, non-performing non-covered loans and the allowances for loan losses have been excluded.
- (2) Mortgage-related and other securities, including FHLB stock, are shown at their respective carrying amounts.
- (3) Expected amount based, in part, on historical experience.
- (4) The interest rate sensitivity gap per period represents the difference between interest-earning assets and interest-bearing liabilities.

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Prepayment and deposit decay rates can have a significant impact on our estimated gap. While we believe our assumptions to be reasonable, there can be no assurance that the assumed prepayment and decay rates will approximate actual future loan and securities prepayments and deposit withdrawal activity.

To validate our prepayment assumptions for our multi-family and CRE loan portfolios, we perform a monthly analysis, during which we review our historical prepayment rates and compare them to our projected prepayment rates. We continually review the actual prepayment rates to ensure that our projections are as accurate as possible, since prepayments on these types of loans are not as closely correlated to changes in interest rates as prepayments on one-to-four family loans tend to be. In addition, we review the call provisions, if any, in our borrowings and investment portfolios and, on a monthly basis, compare the actual calls to our projected calls to ensure that our projections are reasonable.

As of March 31, 2018, the impact of a 100-bp decline in market interest rates would have increased our projected prepayment rates for multi-family and CRE loans by a constant prepayment rate of 14.48% per annum. Conversely, the impact of a 100-bp increase in market interest rates would have decreased our projected prepayment rates for multi-family and CRE loans by a constant prepayment rate of 4.66% per annum.

Certain shortcomings are inherent in the method of analysis presented in the preceding Interest Rate Sensitivity Analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of the market, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. Furthermore, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in calculating the table. Also, the ability of some borrowers to repay their adjustable-rate loans may be adversely impacted by an increase in market interest rates.

Interest rate sensitivity is also monitored through the use of a model that generates estimates of the change in our NPV over a range of interest rate scenarios. NPV is defined as the net present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated loan prepayment rates, reinvestment rates, and deposit decay rates similar to those utilized in formulating the preceding Interest Rate Sensitivity Analysis.

Based on the information and assumptions in effect at March 31, 2018, the following table reflects the estimated percentage change in our NPV, assuming the changes in interest rates noted:

<b>Change in Interest Rates</b>	<b>Estimated Percentage Change in</b>
<b>(in basis points)<sup>(1)</sup></b>	<b>Net Portfolio Value</b>
+100	(5.68)%
+200	(11.52)%

(1) The impact of 100- and 200-bp reductions in interest rates is not presented in view of the current level of the federal funds rate and other short-term interest rates.

The net changes in NPV presented in the preceding table are within the parameters approved by the Boards of Directors of the Company and the Banks.

As with the Interest Rate Sensitivity Analysis, certain shortcomings are inherent in the methodology used in the preceding interest rate risk measurements. Modeling changes in NPV requires that certain assumptions be made which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV Analysis presented above assumes that the composition of our interest rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and also assumes that a particular change in interest rates is reflected uniformly across the yield curve, regardless of the duration to maturity or repricing of specific assets and liabilities. Furthermore, the model does not take into account the benefit of any strategic actions we may take to further reduce our exposure to interest rate risk. Accordingly, while the NPV Analysis provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income, and may very well differ from actual results.

We also utilize an internal net interest income simulation to manage our sensitivity to interest rate risk. The simulation incorporates various market-based assumptions regarding the impact of changing interest rates on future levels of our financial assets and liabilities. The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the following table, due to the frequency, timing, and magnitude of changes in interest rates; changes in spreads between maturity and repricing categories; and prepayments, among other factors, coupled with any actions taken to counter the effects of any such changes.

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Based on the information and assumptions in effect at March 31, 2018, the following table reflects the estimated percentage change in future net interest income for the next twelve months, assuming the changes in interest rates noted:

<b>Change in Interest Rates</b>	<b>Estimated Percentage Change in</b>
<b>(in basis points)<sup>(1)(2)</sup></b>	<b>Future Net Interest Income</b>
+100	(4.00)%
+200	(7.89)%

(1) In general, short- and long-term rates are assumed to increase in parallel fashion across all four quarters and then remain unchanged.

(2) The impact of 100- and 200-bp reductions in interest rates is not presented in view of the current level of the federal funds rate and other short-term interest rates.

Future changes in our mix of assets and liabilities may result in greater changes to our gap, NPV, and/or net interest income simulation.

In the event that our NPV and net interest income sensitivities were to breach our internal policy limits, we would undertake the following actions to ensure that appropriate remedial measures were put in place:

Our ALCO Committee would inform the Board of Directors of the variance, and present recommendations to the Board regarding proposed courses of action to restore conditions to within-policy tolerances.

In formulating appropriate strategies, the ALCO Committee would ascertain the primary causes of the variance from policy tolerances, the expected term of such conditions, and the projected effect on capital and earnings.

Where temporary changes in market conditions or volume levels result in significant increases in risk, strategies may involve reducing open positions or employing synthetic hedging techniques to more immediately reduce risk exposure. Where variance from policy tolerances is triggered by more fundamental imbalances in the risk profiles of core loan and deposit products, a remedial strategy may involve restoring balance through natural hedges to the extent possible before employing synthetic hedging techniques. Other strategies might include:

Asset restructuring, involving sales of assets having higher risk profiles, or a gradual restructuring of the asset mix over time to affect the maturity or repricing schedule of assets;

Liability restructuring, whereby product offerings and pricing are altered or wholesale borrowings are employed to affect the maturity structure or repricing of liabilities;

Expansion or shrinkage of the balance sheet to correct imbalances in the repricing or maturity periods between assets and liabilities; and/or

Use or alteration of off-balance sheet positions, including interest rate swaps, caps, floors, options, and forward purchase or sales commitments.

In connection with our net interest income simulation modeling, we also evaluate the impact of changes in the slope of the yield curve. At March 31, 2018, our analysis indicated that an immediate inversion of the yield curve would be expected to result in a 1.07% decrease in net interest income; conversely, an immediate steepening of the yield curve would be expected to result in a 2.78% increase in net interest income.

### **Liquidity**

We manage our liquidity to ensure that cash flows are sufficient to support our operations, and to compensate for any temporary mismatches between sources and uses of funds caused by variable loan and deposit demand.

We monitor our liquidity daily to ensure that sufficient funds are available to meet our financial obligations. Our most liquid assets are cash and cash equivalents, which totaled \$2.7 billion and \$2.5 billion, respectively, at March 31, 2018 and December 31, 2017. As in the past, our portfolios of loans and securities provided liquidity in the first three months of the year, with cash flows from the repayment and sale of loans totaling \$1.9 billion and cash flows from the repayment and sale of securities totaling \$346.6 million.

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Additional liquidity stems from the retail, institutional, and municipal deposits we gather and from our use of wholesale funding sources, including brokered deposits and wholesale borrowings. We also have access to the Banks approved lines of credit with various counterparties, including the FHLB-NY. The availability of these wholesale funding sources is generally based on the available amount of mortgage loan collateral under a blanket lien we have pledged to the respective institutions and, to a lesser extent, the available amount of securities that may be pledged to collateralize our borrowings. At March 31, 2018, our available borrowing capacity with the FHLB-NY was \$7.0 billion. In addition, the Banks had \$3.4 billion of available-for-sale securities, combined, at that date.

Furthermore, both the Community Bank and the Commercial Bank have agreements with the FRB-NY that enable them to access the discount window as a further means of enhancing their liquidity if need be. In connection with their agreements, the Banks have pledged certain loans and securities to collateralize any funds they may borrow. At March 31, 2018, the maximum amount the Community Bank could borrow from the FRB-NY was \$1.4 billion; the maximum amount the Commercial Bank could borrow from the FRB-NY was \$78.7 million. There were no borrowings against either of these lines of credit at that date.

Our primary investing activity is loan production. In the first three months of 2018, the volume of loans originated for investment was \$2.4 billion. During this time, the net cash used in investing activities totaled \$465.8 million. Our operating activities provided net cash of \$148.3 million, while the net cash provided by our financing activities totaled \$470.1 million.

CDs due to mature in one year or less from March 31, 2018 totaled \$7.1 billion, representing 78.3% of total CDs at that date. Our ability to retain these CDs and to attract new deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay on our deposits, the types of products we offer, and the attractiveness of their terms. However, there are times when we may choose not to compete for such deposits, depending on the availability of lower-cost funding, the competitiveness of the market and its impact on pricing, and our need for such deposits to fund loan demand, as previously discussed.

The Parent Company is a separate legal entity from each of the Banks and must provide for its own liquidity. In addition to operating expenses and any share repurchases, the Parent Company is responsible for paying dividends declared to our shareholders. As a Delaware corporation, the Parent Company is able to pay dividends either from surplus or, in case there is no surplus, from net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

In each of the four quarters of 2017, the Company was required to receive a non-objection from the FRB to pay all dividends; non-objections were received from the FRB in all four quarters of the year. The Company expects to continue the exchange of written documentation to obtain the FRB's non-objection to the declaration of dividends in 2018. The Company has received all necessary non-objections from the FRB for the dividends declared as of the date of this report.

The Parent Company's ability to pay dividends may also depend, in part, upon dividends it receives from the Banks. The ability of the Community Bank and the Commercial Bank to pay dividends and other capital distributions to the Parent Company is generally limited by New York State Banking Law and regulations, and by certain regulations of the FDIC. In addition, the Superintendent of the New York State Department of Financial Services (the Superintendent), the FDIC, and the FRB, for reasons of safety and soundness, may prohibit the payment of dividends that are otherwise permissible by regulations.

Under New York State Banking Law, a New York State-chartered stock-form savings bank or commercial bank may declare and pay dividends out of its net profits, unless there is an impairment of capital. However, the approval of the

Superintendent is required if the total of all dividends declared in a calendar year would exceed the total of a bank's net profits for that year, combined with its retained net profits for the preceding two years. In the three months ended March 31, 2018, the Banks paid dividends totaling \$95.0 million to the Parent Company, leaving \$401.0 million they could dividend to the Parent Company without regulatory approval at that date. Additional sources of liquidity available to the Parent Company at March 31, 2018 included \$79.2 million in cash and cash equivalents. If either of the Banks were to apply to the Superintendent for approval to make a dividend or capital distribution in excess of the dividend amounts permitted under the regulations, there can be no assurance that such application would be approved.

### **Capital Position**

On March 17, 2017, we issued 515,000 shares of preferred stock. The offering generated capital of \$502.8 million, net of underwriting and other issuance costs, for general corporate purposes, with the bulk of the proceeds being distributed to the Community Bank.

Common stockholders' equity represented 12.64%, 12.81%, and 12.58%, respectively, of total assets at March 31, 2018, December 31, 2017, and March 31, 2017, and was equivalent to a book value per common share of \$12.80, \$12.88, and \$12.57 at the respective dates. We calculate book value per common share by dividing the amount of common stockholders' equity at the end of a period by the number of common shares outstanding at the same date. At March 31, 2018, December 31, 2017, and March 31, 2017, we had outstanding common shares of 490,379,532, 488,490,352, and 488,953,712, respectively.

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Tangible common stockholders' equity was relatively stable at \$3.8 billion, representing 8.14% of tangible assets and a tangible book value per common share of \$7.83 at March 31, 2018. At year-end, tangible common stockholders' equity totaled \$3.9 billion or 8.26% of tangible assets and a tangible book value per common share of \$7.89. At March 31, 2017, tangible common stockholders' equity totaled \$3.7 billion, representing 7.99% of tangible assets, and a tangible book value per common share of \$7.58.

We calculate tangible common stockholders' equity by subtracting the amount of goodwill and CDI recorded at the end of a period from the amount of common stockholders' equity recorded at the same date. At March 31, 2018, December 31, 2017, and March 31, 2017, we recorded goodwill of \$2.4 billion; CDI was zero, zero, and \$54,000, respectively, at the corresponding dates. (See the discussion and reconciliations of stockholders' equity, common stockholders' equity, and tangible common stockholders' equity; total assets and tangible assets; and the related financial measures that appear earlier in this report.)

Stockholders' equity, common stockholders' equity, and tangible common stockholders' equity include AOCL, which increased \$40.6 million from the balance at the end of last year and decreased \$277,000 from the year-ago quarter to \$55.8 million at March 31, 2018. The increase was the result of a \$31.1 million decrease in the net unrealized gain on available-for-sale securities, net of tax, to \$8.1 million and an \$8.7 million increase in net unrealized loss on pension and post-retirement obligations, net of tax, to \$57.8 million.

At March 31, 2018, our capital measures continued to exceed the minimum federal requirements for a bank holding company. The following table sets forth our common equity tier 1, tier 1 risk-based, total risk-based, and leverage capital amounts and ratios on a consolidated basis, as well as the respective minimum regulatory capital requirements, at that date:

**Regulatory Capital Analysis (the Company)**

At March 31, 2018 (dollars in thousands)	Common Equity		Risk-Based Capital				Leverage Capital	
	Tier 1		Tier 1		Total			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$ 3,900,353	11.46%	\$ 4,403,192	12.93%	\$ 4,911,370	14.43%	\$ 4,403,192	9.50%
Minimum for capital adequacy purposes	1,531,971	4.50	2,042,628	6.00	2,723,505	8.00	1,853,542	4.00
Excess	\$ 2,368,382	6.96%	\$ 2,360,564	6.93%	\$ 2,187,865	6.43%	\$ 2,549,650	5.50%

Basel III calls for the phase-in of a capital conservation buffer over a five-year period beginning with 0.625% in 2016 and reaching 2.50% in 2019, when fully phased in. At March 31, 2018, our total risk-based capital ratio exceeded the minimum requirement for capital adequacy purposes by 643 bp and the fully-phased in capital conservation buffer by 393 bp.

As reflected in the following tables, the capital ratios for the Community Bank and the Commercial Bank also continued to exceed the minimum regulatory capital levels required at March 31, 2018:



**Regulatory Capital Analysis (New York Community Bank)**

<b>At March 31, 2018</b> (dollars in thousands)	Common Equity		Risk-Based Capital				Leverage Capital	
	Tier 1		Tier 1		Total			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$ 4,281,852	13.55%	\$ 4,281,852	13.55%	\$ 4,416,244	13.97%	\$ 4,281,852	10.00%
Minimum for capital adequacy purposes	1,422,293	4.50	1,896,391	6.00	2,528,521	8.00	1,713,375	4.00
Excess	\$ 2,859,559	9.05%	\$ 2,385,461	7.55%	\$ 1,887,723	5.97%	\$ 2,568,477	6.00%

**Table of Contents****Regulatory Capital Analysis (New York Commercial Bank)**

<b>At March 31, 2018</b> (dollars in thousands)	<b>Risk-Based Capital</b>							
	Common Equity		Tier 1		Total		Leverage Capital	
	Tier 1 Amount	Ratio	Tier 1 Amount	Ratio	Total Amount	Ratio	Amount	Ratio
Total capital	\$ 381,159	15.69%	\$ 381,159	15.69%	\$ 408,463	16.81%	\$ 381,159	11.00%
Minimum for capital adequacy purposes	109,326	4.50	145,768	6.00	194,358	8.00	138,630	4.00
Excess	\$ 271,833	11.19%	\$ 235,391	9.69%	\$ 214,105	8.81%	\$ 242,529	7.00%

As of March 31, 2018, the Community Bank and the Commercial Bank also exceeded the minimum capital requirements to be categorized as Well Capitalized. To be categorized as well capitalized, a bank must maintain a minimum common equity tier 1 ratio of 6.50%; a minimum tier 1 risk-based capital ratio of 8.00%; a minimum total risk-based capital ratio of 10.00%; and a minimum leverage capital ratio of 5.00%.

**Earnings Summary for the Three Months Ended March 31, 2018**

The Company reported net income of \$106.6 million for the three months ended March 31, 2018, up 2% from the \$104.0 million reported for the three months ended March 31, 2017. Net income available to common shareholders was \$98.3 million, down 5% compared to \$104.0 million in the year-ago first quarter. In the current first quarter period, the Company paid \$8.2 million in preferred stock dividends, whereas there was no such payment in the first quarter of last year. Diluted earnings per common share for the three months ended March 31, 2018 was \$0.20 as compared to \$0.21 for the three months ended March 31, 2017.

**Net Interest Income**

Net interest income is our primary source of income. Its level is a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by various external factors, including the local economy, competition for loans and deposits, the monetary policy of the FOMC, and market interest rates.

Net interest income is also influenced by the level of prepayment income primarily generated in connection with the prepayment of our multi-family and CRE loans, as well as securities. Since prepayment income is recorded as interest income, an increase or decrease in its level will also be reflected in the average yields (as applicable) on our loans, securities, and interest-earning assets, and therefore in our interest rate spread and net interest margin.

It should be noted that the level of prepayment income on loans recorded in any given period depends on the volume of loans that refinance or prepay during that time. Such activity is largely dependent on such external factors as current market conditions, including real estate values, and the perceived or actual direction of market interest rates. In addition, while a decline in market interest rates may trigger an increase in refinancing and, therefore, prepayment income, so too may an increase in market interest rates. It is not unusual for borrowers to lock in lower interest rates when they expect, or see, that market interest rates are rising rather than risk refinancing later at a still higher interest rate.

The Company recorded net interest income of \$270.3 million in the current first quarter, relatively unchanged from the trailing-quarter level and a \$24.6 million decrease from the year-earlier amount.

***Linked-Quarter Comparison***

The sequential decline in net interest income was attributable to a variety of factors, including an increase in our cost of funds, as short-term interest rates rose throughout the second half of 2017 and into the first quarter of 2018. This was partially offset by loan growth along with higher loan yields. Details of the linked-quarter decline in net interest income follow:

Interest income of \$404.3 million in the current first quarter increased \$14.0 million from the amount reported in the trailing quarter. Interest income from loans rose \$9.4 million to \$355.9 million, while interest income from securities and money market investments rose \$4.6 million to \$48.4 million.

The increase in interest income from loans was driven by a \$639.0 million increase in the average balance in mortgage and other loans, net to \$38.3 billion and a four-bp increase on the average loan yield to 3.72%. The increase in average loan balances were primarily due to the resumption of our organic balance sheet growth strategy. The increase in the average loan yield was a function of higher rates on new loan originations along with modestly higher prepayment income. Prepayment income contributed 12 bp to the average loan yield, up one bp.

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Interest income from securities increased \$4.4 million due to increases in both the average balance of securities, which increased \$274.1 million to \$4.1 billion along with a 20-bp increase in the average yield to 3.95%.

As a result, the average balance of interest-earning assets rose \$637.9 million sequentially, to \$44.5 billion and the average yield on such assets rose eight bp to 3.64%.

Interest expense rose \$14.6 million sequentially to \$134.0 million, primarily due to a \$6.8 million increase in interest expense on interest-bearing checking and money market accounts combined with a \$6.0 million increase in the interest expense on borrowed funds.

Interest expense on total interest-bearing deposits rose \$8.6 million to \$72.1 million as both the average balance of interest-bearing deposits and the cost of those deposits rose. Average interest-bearing deposit balances increased \$428.7 million to \$26.5 billion, while the cost increased 13 bp to 1.10%.

Interest expense on borrowed funds increased \$6.0 million to \$61.9 million. Similar to the increase in interest expense on interest-bearing deposits, the increase in interest expense on borrowed funds was due to both higher average balances and higher costs on those balances. Average borrowed funds increased \$552.6 million to \$12.9 billion, while the cost increased 15 bp to 1.94%.

***Year-Over-Year Comparison***

The following factors contributed to the year-over-year reduction in net interest income:

Interest income rose \$5.2 million year-over-year as a \$2.5 million decline in the interest income from loans was offset by a \$7.7 million increase in the interest income from securities and money market investments.

The decline in the interest income from loans was largely due to a \$778.4 million decline in the average balance offset by a five-bp increase in the average yield. The year-over-year decline in average loan balances was primarily due to the sale of our covered loan portfolio in the third quarter of 2017.

The year-over-year decrease in interest income from securities was driven by a \$273.9 million decrease in the average balance, offset by a 17-bp increase in the average yield to 3.95%.

Interest income on interest earning cash and cash equivalents was \$8.4 million due to a sharp increase in both the average balance and the average yield. Average balances increased \$2.1 billion as the Company reinvested the proceeds from the sale of its covered loan portfolio, while at the same time average yields increased 126 bp to 1.60%.

Interest expense rose \$29.8 million year-over-year as the interest expense on deposits rose \$23.5 million and the interest expense on borrowed funds rose \$6.4 million.

The year-over-year rise in interest expense stemming from deposits was due to a 35-bp rise in the average cost of such funds due to higher short-term interest rates, combined with a \$344.2 million increase in the average balance. The increase in the interest income from borrowed funds was driven by a 26-bp rise in the average cost of such funding and mitigated by a \$468.1 million decline in the average balance from the year-earlier amount.

***Net Interest Margin***

The direction of the Company's net interest margin was consistent with that of its net interest income, and generally was driven by the same factors as those described above. At 2.42%, the margin was six-bp narrower than the trailing-quarter measure and 29-bp narrower than the margin recorded in the first quarter of last year.

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The following table summarizes the contribution of loan and securities prepayment income on the Company's interest income and NIM in the three months ended March 31, 2018, December 31, 2017, and March 31, 2017:

(dollars in thousands)	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>March 31, 2017</b>
<b>Total interest income</b>	\$ 404,325	\$ 390,370	\$ 399,119
<b>Prepayment income:</b>			
Loans	\$ 11,779	\$ 10,078	\$ 9,566
Securities	2,933	1,387	2,548
<b>Total prepayment income</b>	<b>\$ 14,712</b>	<b>\$ 11,465</b>	<b>\$ 12,114</b>
<b>GAAP Net interest margin</b>	2.42%	2.48%	2.71%
Less:			
Prepayment income from loans	11 bp	9 bp	9 bp
Prepayment income from securities	2	2	2
 Total prepayment income contribution to net interest margin	 13 bp	 11 bp	 11 bp
<b>Adjusted net interest margin <sup>(1)</sup></b>	<b>2.29%</b>	<b>2.37%</b>	<b>2.60%</b>

(1) Adjusted net interest margin is a non-GAAP financial measure as more fully discussed below. While our net interest margin, including the contribution of prepayment income, is recorded in accordance with GAAP, adjusted net interest margin, which excludes the contribution of prepayment income, is not. Nevertheless, management uses this non-GAAP measure in its analysis of our performance, and believes that this non-GAAP measure should be disclosed in this report and other investor communications for the following reasons:

- Adjusted net interest margin gives investors a better understanding of the effect of prepayment income on our net interest margin. Prepayment income in any given period depends on the volume of loans that refinance or prepay, or securities that prepay, during that period. Such activity is largely dependent on external factors such as current market conditions, including real estate values, and the perceived or actual direction of market interest rates.
- Adjusted net interest margin is among the measures considered by current and prospective investors, both independent of, and in comparison with, our peers.

Adjusted net interest margin should not be considered in isolation or as a substitute for net interest margin, which is calculated in accordance with GAAP. Moreover, the manner in which we calculate this non-GAAP measure may differ from that of other companies reporting a non-GAAP measure with a similar name.

The following table sets forth certain information regarding our average balance sheet for the quarters indicated, including the average yields on our interest-earning assets and the average costs of our interest-bearing liabilities.

Average yields are calculated by dividing the interest income produced by the average balance of interest-earning assets. Average costs are calculated by dividing the interest expense produced by the average balance of interest-bearing liabilities. The average balances for the quarters are derived from average balances that are calculated daily. The average yields and costs include fees, as well as premiums and discounts (including mark-to-market adjustments from acquisitions), that are considered adjustments to such average yields and costs.

**Table of Contents****Net Interest Income Analysis**

(dollars in thousands)	March 31, 2018			For the Three Months Ended December 31, 2017			March 31, 2017		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
<b>Assets:</b>									
Interest-earning assets:									
Mortgage and other loans, net <sup>(1)</sup>	\$ 38,290,886	\$ 355,917	3.72%	\$ 37,651,895	\$ 346,515	3.68%	\$ 39,069,323	\$ 358,402	3.67%
Securities <sup>(2)(3)</sup>	4,066,613	39,992	3.95	3,792,557	35,628	3.75	4,340,559	40,710	3.78
Interest-earning cash and cash equivalents <sup>(2)</sup>	2,134,976	8,416	1.60	2,410,081	8,227	1.35	8,469	7	0.34
Total interest-earning assets	44,492,475	404,325	3.64	43,854,533	390,370	3.56	43,418,351	399,119	3.68
Non-interest-earning assets	4,369,908			4,320,513			5,317,958		
Total assets	\$ 48,862,383			\$ 48,175,046			\$ 48,736,309		
<b>Liabilities and Stockholders Equity:</b>									
Interest-bearing deposits:									
Interest-bearing checking and money market accounts	\$ 12,627,483	\$ 34,369	1.10%	\$ 12,304,413	\$ 27,567	0.89%	\$ 13,213,490	\$ 19,709	0.60%
Savings accounts	5,063,110	7,221	0.58	5,166,477	7,378	0.57	5,250,724	6,810	0.53
Certificates of deposit	8,804,862	30,515	1.41	8,595,905	28,569	1.32	7,687,089	22,131	1.17
Total interest-bearing deposits	26,495,455	72,105	1.10	26,066,795	63,514	0.97	26,151,303	48,650	0.75
Borrowed funds	12,927,318	61,922	1.94	12,374,681	55,882	1.79	13,395,369	55,552	1.68
Total interest-bearing liabilities	39,422,773	134,027	1.38	38,441,476	119,396	1.23	39,546,672	104,202	1.07
	2,401,542			2,665,971			2,735,560		



Non-interest-bearing deposits							
Other liabilities	247,498		311,277		218,726		
Total liabilities							
	42,071,813		41,418,724		42,500,958		
Stockholders equity	6,790,570		6,756,322		6,235,351		
Total liabilities and stockholders equity							
	\$ 48,862,383		\$ 48,175,046		\$ 48,736,309		
Net interest income/interest rate spread							
	\$ 270,298	2.26%	\$ 270,974	2.33%	\$ 294,917	2.61%	
Net interest margin							
		2.42%		2.48%		2.71%	
Ratio of interest-earning assets to interest-bearing liabilities							
		1.13x		1.14x		1.10x	

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowances for loan losses, and include loans held for sale and non-performing loans.

(2) Amounts are at amortized cost.

(3) Includes FHLB stock.

**Table of Contents****Provision for Losses on Non-Covered Loans**

The provision for losses on non-covered loans is based on the methodology used by management in calculating the allowance for losses on such loans. Reflecting this methodology, which is discussed in detail under Critical Accounting Policies, we recorded a \$9.6 million provision for non-covered loan losses in the current first quarter, as compared to \$2.9 million and \$1.8 million in the three months ended December 31, 2017 and March 31, 2017.

For additional information about our provisions for and recoveries of loan losses, see the discussion of the allowances for loan losses under Critical Accounting Policies and the discussion of Asset Quality that appear earlier in this report.

**Non-Interest Income**

We generate non-interest income through a variety of sources, including among others mortgage banking income; fee income (in the form of retail deposit fees and charges on loans); income from our investment in BOLI; gains on the sale of securities; and revenues produced through the sale of third-party investment products and those produced through our wholly-owned subsidiary, Peter B. Cannell & Co., Inc., an investment advisory firm.

Non-interest income totaled \$22.9 million in the current first quarter, down \$2.5 million from the trailing-quarter level and \$9.3 million from the year-earlier amount. The year-over-year decrease was impacted by the sale of our mortgage banking operations during the third quarter of last year. For the three months ended March 31, 2017, mortgage banking income totaled \$9.8 million compared to zero for the three months ended March 31, 2018. The linked quarter decrease was impacted by lower fee income and other income and a net loss on securities compared to a net gain in the prior quarter. This was partially offset by higher BOLI income.

The following table summarizes our non-interest income for the respective periods:

**Non-Interest Income Analysis**

(in thousands)	<b>For the Three Months Ended</b>		
	March 31, 2018	December 31, 2017	March 31, 2017
Fee income	\$ 7,327	\$ 7,776	\$ 7,860
BOLI income	6,804	5,963	6,337
Mortgage banking income			9,764
Net (loss) gain on securities	(466)	1,009	1,979
FDIC indemnification expense			(4,636)
Other income:			
Peter B. Cannell & Co., Inc.	5,200	5,514	5,533
Third-party investment product sales	3,075	3,509	3,169
Other	917	1,572	2,166
Total other income	9,192	10,595	10,868
Total non-interest income	\$ 22,857	\$ 25,343	\$ 32,172

**Non-Interest Expense**

Non-interest expense has two primary components: operating expenses, which consist of compensation and benefits expense, occupancy and equipment expense, and G&A expense, and the amortization of the CDI stemming from certain merger transactions.

Non-interest expense totaled \$139.1 million in the current first quarter, a \$9.4 million decrease from the trailing-quarter level and a \$27.8 million decrease from the year-earlier amount.

The majority of the Company's non-interest expense consists of operating expenses, which totaled \$139.1 million in the current first quarter, as compared to \$148.5 million and \$166.8 million, respectively, in the trailing and year-earlier periods. The linked-quarter improvement was primarily the result of lower G&A expense due to declines in professional fees and a decline in FDIC deposit insurance premium expenses.

The year-over-year decline was driven by lower compensation and benefits expense due to the sale of our mortgage banking operations in the third quarter of 2017, as well as lower G&A expense, also related to the sale of the mortgage banking operations and lower professional fees.

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### **Income Tax Expense**

Income tax expense totaled \$37.9 million in the current first quarter, \$29.5 million higher than the trailing-quarter level and \$22.3 million lower than the year-earlier first-quarter amount.

The Company recorded an effective tax rate of 26.25% during the current first quarter.

The income tax expense recorded in the fourth quarter of last year reflected a one-time net benefit of \$42 million as a result of the Tax Cuts and Jobs Act.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and qualitative disclosures about the Company's market risk were presented on pages 74-78 of our 2017 Annual Report on Form 10-K, filed with the SEC on March 2, 2018. Subsequent changes in the Company's market risk profile and interest rate sensitivity are detailed in the discussion entitled "Management of Market and Interest Rate Risk" earlier in this quarterly report.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***(a) Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's (the "SEC's") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period.

#### ***(b) Changes in Internal Control over Financial Reporting***

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in various legal actions arising in the ordinary course of its business. All such actions in the aggregate involve amounts that are believed by management to be immaterial to the financial condition and results of operations of the Company.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as such factors could materially affect the Company's business, financial condition, or future results of operations. There have been no material changes to the risk factors disclosed in the Company's 2017 Annual Report on Form 10-K.

The risks described in the 2017 Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*****Shares Repurchased Pursuant to the Company's Stock-Based Incentive Plans***

Participants in the Company's stock-based incentive plans may have shares of common stock withheld to fulfill the income tax obligations that arise in connection with the vesting of their stock awards. Shares that are withheld for this purpose are repurchased pursuant to the terms of the applicable stock-based incentive plan, rather than pursuant to the share repurchase program authorized by the Board of Directors, described below.

During the three months ended March 31, 2018, the Company allocated \$1.7 million toward the repurchase of shares of its common stock pursuant to the terms of its stock-based incentive plans, as indicated in the following table:

(dollars in thousands, except per share data)

		<b>Total Shares of Common</b>		
		<b>Stock</b>	<b>Average Price Paid</b>	<b>Total</b>
<b>First Quarter 2018</b>		<b>Repurchased</b>	<b>per Common Share</b>	<b>Allocation</b>
January 1	January 31	769	\$ 13.32	\$ 10
February 1	February 28	5,279	13.35	70
March 1	March 31	120,435	13.58	1,635
Total shares repurchased		126,483	13.57	\$ 1,715

***Shares Repurchased Pursuant to the Board of Directors' Share Repurchase Authorization***

On April 20, 2004, the Board of Directors authorized the repurchase of up to five million shares of the Company's common stock. Of this amount, 1,659,816 shares were still available for repurchase at March 31, 2018. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions. No shares have been repurchased under this authorization since August 2006.

Shares that are repurchased pursuant to the Board of Directors' authorization, and those that are repurchased pursuant to the Company's stock-based incentive plans, are held in our Treasury account and may be used for various corporate purposes, including, but not limited to, merger transactions and the vesting of restricted stock awards.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

**Exhibit No.**

- 3.1 Amended and Restated Certificate of Incorporation. <sup>(1)</sup>
- 3.2 Certificate of Amendment of Amended and Restated Certificate of Incorporation. <sup>(2)</sup>
- 3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation. <sup>(3)</sup>
- 3.4 Certificate of Designations of the Registrant with respect to the Series A Preferred Stock, dated March 16, 2017, filed with the Secretary of State of the State of Delaware and effective March 16, 2017. <sup>(4)</sup>
- 3.5 Amended and Restated Bylaws. <sup>(5)</sup>
- 4.1 Specimen Stock Certificate. <sup>(6)</sup>
- 4.2 Deposit Agreement, dated as of March 16, 2017, by and among the Registrant, Computershare, Inc. and Computershare Trust Company, N.A., as joint depository, and the holders from time to time of the depository receipts described therein. <sup>(7)</sup>
- 4.3 Form of certificate representing the Series A Preferred Stock. <sup>(7)</sup>
- 4.4 Form of depository receipt representing the Depository Shares. <sup>(7)</sup>
- 4.5 Registrant will furnish, upon request, copies of all instruments defining the rights of holders of long-term debt instruments of the registrant and its consolidated subsidiaries.
- 11.0 Computation of Earnings per Common Share (See Note 2 to the Consolidated Financial Statements).
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 32.0 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

- (1) Incorporated by reference to Exhibits filed with the Company's Form 10-Q for the quarterly period ended March 31, 2001 (File No. 0-22278).
- (2) Incorporated by reference to Exhibits filed with the Company's Form 10-K for the year ended December 31, 2003 (File No. 1-31565).
- (3) Incorporated by reference to Exhibits to the Company's Form 8-K filed with the Securities and Exchange Commission on April 27, 2016 (File No. 1-31565).
- (4) Incorporated herein by reference to 3.4 of the Registrant's Registration Statement on Form 8-A (File No. 333-210919), as filed with the Securities and Exchange Commission on March 16, 2017.

- (5) Incorporated by reference to Exhibits filed with the Company's Form 10-K for the year ended December 31, 2016 (File No. 1-31565).
- (6) The Series A Preferred Stock represents the Company's Fixed-to-Floating Rate Series A Noncumulative Perpetual Preferred Stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share. The form of certificate representing such Stock is incorporated by reference to Exhibits filed with the Company's Form 10-Q filed with the Securities and Exchange Commission on November 9, 2017 (File No. 1-31565).
- (7) The Depositary Shares are securities each representing  $\frac{1}{40}$ th interest in a share of the Company's Series A Preferred Stock and were issued by the Company in March 2017. The form of depositary receipt representing such Depositary Shares is incorporated by reference to Exhibits filed with the Company's Form 8-K filed with the Securities and Exchange Commission on March 17, 2017 (File No. 1-31565).



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**NEW YORK COMMUNITY BANCORP, INC.**

**SIGNATURES**

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

New York Community Bancorp, Inc.  
(Registrant)

DATE: May 10, 2018

BY: /s/ Joseph R. Ficalora  
Joseph R. Ficalora

President, Chief Executive Officer,  
and Director

DATE: May 10, 2018

BY: /s/ Thomas R. Cangemi  
Thomas R. Cangemi

Senior Executive Vice President  
and Chief Financial Officer