

NEW YORK COMMUNITY BANCORP INC

Form 10-Q

November 08, 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 SEPTEMBER 30, 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

**06-1377322**

(I.R.S. Employer Identification No.)

incorporation or organization)

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 every Interactive Data File required to be submitted 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 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)

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Large accelerated filer  
Non-Accelerated filer

Accelerated filer  
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

490,340,462

Number of shares of common stock outstanding at

November 2, 2018

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**NEW YORK COMMUNITY BANCORP, INC.**

**FORM 10-Q**

**Quarter Ended September 30, 2018**

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**GLOSSARY**

**BASIS POINT**

Throughout this filing, the 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.

**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.

**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.

**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.

#### **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.

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**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.

**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).

**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.

**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-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, OREO, and repossessed assets.

**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.



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**SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION**

A bank holding company with total consolidated assets that average more than \$250 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, as revised by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

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

FDI Act - Federal Deposit Insurance Act

SIFI - Systemically Important Financial Institution

FDIC - Federal Deposit Insurance Corporation

TDRs - Troubled debt restructurings

FHLB - Federal Home Loan Bank

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**NEW YORK COMMUNITY BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CONDITION**

(in thousands, except share data)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(unaudited)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,731,754	\$ 2,528,169
<b>Securities:</b>		
Debt securities available-for-sale (\$835,130 and \$1,263,227 pledged, respectively)	4,764,283	3,531,427
Equity investments with readily determinable fair values, at fair value	31,724	--
Total securities	4,796,007	3,531,427
Loans held for sale	--	35,258
Loans held for investment, net of deferred loan fees and costs	39,838,271	38,387,971
Less: Allowance for loan losses	(159,655)	(158,046)
Loans held for investment, net	39,678,616	38,229,925
Total loans, net	39,678,616	38,265,183
Federal Home Loan Bank stock, at cost	654,939	603,819
Premises and equipment, net	352,518	368,655
Goodwill	2,436,131	2,436,131
Mortgage servicing rights (\$0 and \$2,729 measured at fair value, respectively)	1,254	6,100
Bank-owned life insurance	975,831	967,173
Other real estate owned and other repossessed assets	13,765	16,400
Other assets	605,839	401,138
Total assets	\$ 51,246,654	\$ 49,124,195
<b>Liabilities and Stockholders Equity:</b>		
<b>Deposits:</b>		
Interest-bearing checking and money market accounts	\$ 11,559,687	\$ 12,936,301
Savings accounts	4,826,845	5,210,001
Certificates of deposit	11,409,974	8,643,646
Non-interest-bearing accounts	2,522,778	2,312,215
Total deposits	30,319,284	29,102,163

Borrowed funds:		
Wholesale borrowings:		
Federal Home Loan Bank advances	13,281,000	12,104,500
Repurchase agreements	200,000	450,000
Total wholesale borrowings	13,481,000	12,554,500
Junior subordinated debentures	359,422	359,179
Total borrowed funds	13,840,422	12,913,679
Other liabilities	292,933	312,977
Total liabilities	44,452,639	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 490,341,864 and 488,490,352 shares outstanding, respectively)	4,904	4,891
Paid-in capital in excess of par	6,091,749	6,072,559
Retained earnings	286,763	237,868
Treasury stock, at cost (97,206 and 581,749 shares, respectively)	(1,177)	(7,615)
Accumulated other comprehensive loss, net of tax:		
Net unrealized (loss) gain on securities available for sale, net of tax of \$12,495 and \$(27,961), respectively	(29,859)	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 \$20,510 and \$32,121, respectively	(55,163)	(49,134)
Total accumulated other comprehensive loss, net of tax	(91,064)	(15,167)
Total stockholders' equity	6,794,015	6,795,376
Total liabilities and stockholders' equity	\$ 51,246,654	\$ 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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Interest Income:</b>				
Mortgage and other loans	\$368,264	\$350,990	\$1,092,637	\$1,070,722
Securities and money market investments	56,880	42,685	154,164	121,147
Total interest income	425,144	393,675	1,246,801	1,191,869
<b>Interest Expense:</b>				
Interest-bearing checking and money market accounts	44,497	27,620	119,246	71,413
Savings accounts	7,325	7,109	21,176	21,069
Certificates of deposit	51,249	27,649	121,298	73,786
Borrowed funds	72,567	54,954	201,322	166,572
Total interest expense	175,638	117,332	463,042	332,840
Net interest income	249,506	276,343	783,759	859,029
Provision for losses on non-covered loans	1,201	44,585	15,486	58,017
Recovery of losses on covered loans	--	--	--	(23,701)
Net interest income after provision for (recovery of) loan losses	248,305	231,758	768,273	824,713
<b>Non-Interest Income:</b>				
Fee income	7,237	7,972	22,056	23,983
Bank-owned life insurance	7,302	8,314	20,424	21,170
Mortgage banking income	--	1,486	--	19,446
Net (loss) gain on securities	(41)	--	(810)	28,915
FDIC indemnification expense	--	--	--	(18,961)
Gain on sale of covered loans and mortgage banking operations	--	82,026	--	82,026
Other	8,424	9,130	26,815	34,958
Total non-interest income	22,922	108,928	68,485	191,537

**Non-Interest Expense:**

Operating expenses:				
Compensation and benefits	78,283	92,246	242,572	281,964
Occupancy and equipment	24,401	25,133	74,311	73,595
General and administrative	31,749	44,831	94,799	137,175
Total operating expenses	134,433	162,210	411,682	492,734
Amortization of core deposit intangibles	--	24	--	208
Total non-interest expense	134,433	162,234	411,682	492,942
Income before income taxes	136,794	178,452	425,076	523,308
Income tax expense	30,022	67,984	104,398	193,628
Net income	106,772	110,468	320,678	329,680
Preferred stock dividends	8,207	8,207	24,621	16,414
Net income available to common shareholders	\$ 98,565	\$ 102,261	\$ 296,057	\$ 313,266
Basic earnings per common share	\$ 0.20	\$ 0.21	\$ 0.60	\$ 0.64
Diluted earnings per common share	\$ 0.20	\$ 0.21	\$ 0.60	\$ 0.64
Net income	\$106,772	\$110,468	\$320,678	\$329,680
Other comprehensive (loss) income, net of tax:				
Change in net unrealized gain/loss on securities available for sale, net of tax of \$8,738; \$3,049; \$40,456; and \$(35,493), respectively	(20,790)	(4,285)	(69,047)	49,748
Change in the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of \$0; \$0; \$(821); and \$(13), respectively	--	--	(821)	20
Change in pension and post-retirement obligations, net of tax of \$(547); \$(870); \$(11,611) and \$(2,611), respectively	1,314	1,219	(6,029)	3,656
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	(19,476)	(3,066)	(75,897)	52,346
Total comprehensive income, net of tax	\$87,296	\$107,402	\$244,781	\$382,026

See accompanying notes to the consolidated financial statements.

Table of Contents**NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**

(in thousands, except share data)

(unaudited)

	<b>For the Nine Months Ended September 30, 2018</b>
<b>Preferred Stock (Par Value: \$0.01):</b>	
Balance at beginning of year	\$ 502,840
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	(8,879)
Compensation expense related to restricted stock awards	28,069
Balance at end of period	6,091,749
<b>Retained Earnings:</b>	
Balance at beginning of year	237,868
Net income	320,678
Dividends paid on common stock (\$0.51 per share)	(249,968)
Dividends paid on preferred stock (\$47.82 per share)	(24,621)
Effect of adopting ASU No. 2016-01	260
Effect of adopting ASU No. 2018-02	2,546
Balance at end of period	286,763
<b>Treasury Stock, at Cost:</b>	
Balance at beginning of year	(7,615)
Purchase of common stock (188,091 shares)	(2,428)
Shares issued for restricted stock awards (672,634 shares)	8,866



Balance at end of period	(1,177)
<b>Accumulated Other Comprehensive Loss, Net of Tax:</b>	
Balance at beginning of year	(15,167)
Effect of adopting ASU No. 2018-02	(2,546)
Other comprehensive loss, net of tax	(73,351)
Balance at end of period	(91,064)
Total stockholders' equity	\$ 6,794,015

See accompanying notes to the consolidated financial statements.

**Table of Contents****NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$320,678	\$ 329,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	15,486	34,316
Depreciation	24,388	24,915
Amortization of discounts and premiums, net	(3,868)	(3,381)
Amortization of core deposit intangibles	--	208
Net gain on sales of securities	--	(28,915)
Gain on trading securities activity	(222)	--
Net gain on sales of loans	(124)	(87,200)
Stock-based compensation	28,069	27,283
Deferred tax expense (benefit)	35,105	(12,324)
Changes in operating assets and liabilities:		
(Increase) decrease in other assets	(214,040)	536,552
(Decrease) increase in other liabilities	(21,101)	181,400
Purchases of securities held for trading	(141,615)	--
Proceeds from sales of securities held for trading	141,837	--
Origination of loans held for sale	--	(1,623,848)
Proceeds from sales of loans originated for sale	35,258	1,936,162
<b>Net cash provided by operating activities</b>	<b>219,851</b>	<b>1,314,848</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from repayment of securities held to maturity	--	175,375
Proceeds from repayment of securities available for sale	725,328	336,429
Proceeds from sales of securities held to maturity	--	547,925
Proceeds from sales of securities available for sale	--	246,209
Purchase of securities held to maturity	--	(13,030)
Purchase of securities available for sale	(2,095,742)	(390,932)
Redemption of Federal Home Loan Bank stock	57,101	79,254
Purchases of Federal Home Loan Bank stock	(108,221)	(67,794)
Proceeds from bank-owned life insurance	10,968	--
Proceeds from sales of loans	180,377	2,260,687
Other changes in loans, net	(1,644,430)	(664,320)
Purchase of premises and equipment, net	(8,251)	(26,722)
<b>Net cash (used in) provided by investing activities</b>	<b>(2,882,870)</b>	<b>2,483,081</b>

<b>Cash Flows from Financing Activities:</b>		
Net increase in deposits	1,217,121	5,294
Net decrease in short-term borrowed funds	--	(460,000)
Proceeds from long-term borrowed funds	3,700,000	--
Repayments of long-term borrowed funds	(2,773,500)	(850,000)
Net proceeds from issuance of preferred stock	--	502,840
Cash dividends paid on common stock	(249,968)	(249,094)
Cash dividends paid on preferred stock	(24,621)	(16,414)
Payments relating to treasury shares received for restricted stock award tax payments	(2,428)	(10,978)
<b>Net cash provided by (used in) financing activities</b>	<b>1,866,604</b>	<b>(1,078,352)</b>
Net (decrease) increase in cash and cash equivalents	(796,415)	2,719,577
Cash and cash equivalents at beginning of period	2,528,169	557,850
Cash and cash equivalents at end of period	\$ 1,731,754	\$ 3,277,427
Supplemental information:		
Cash paid for interest	\$444,444	\$ 330,182
Cash paid for income taxes	23,384	110,651
Non-cash investing and financing activities:		
Transfers to repossessed assets from loans	\$ 3,124	\$ 9,558
Transfer of loans from held for investment to held for sale	180,253	1,881,532
Shares issued for restricted stock awards	8,879	11,028
Securities transferred from held to maturity to available for sale	--	3,040,305
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 223 branches, two of which operate directly under the Community Bank name. The remaining 221 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.

On October 1, 2018, we received regulatory approval to merge New York Commercial Bank, with and into New York Community Bank. The merger is expected to close during the fourth quarter of 2018. Once the merger is consummated, all 30 branches of New York Commercial Bank will operate as branches of New York Community Bank.

***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 and the evaluation of goodwill for impairment.

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 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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income available to common shareholders	\$98,565	\$102,261	\$296,057	\$313,266
Less: Dividends paid on and earnings allocated to participating securities	(1,219)	(823)	(3,735)	(2,512)
Earnings applicable to common stock	\$97,346	\$101,438	\$292,322	\$310,754
Weighted average common shares outstanding	488,476,340	487,274,303	488,383,554	487,025,614
Basic earnings per common share	\$0.20	\$0.21	\$0.60	\$0.64
Earnings applicable to common stock	\$97,346	\$101,438	\$292,322	\$310,754
Weighted average common shares outstanding	488,476,340	487,274,303	488,383,554	487,025,614
Potential dilutive common shares	--	--	--	--
Total shares for diluted earnings per share computation	488,476,340	487,274,303	488,383,554	487,025,614
Diluted earnings per common share and common share equivalents	\$0.20	\$0.21	\$0.60	\$0.64

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

(in thousands)	For the Nine Months Ended September 30, 2018	
Details about	Amount Reclassified from Accumulated Other Comprehensive Loss <sup>(1)</sup>	Affected Line Item in the Consolidated Statement of Operations and Comprehensive Income (Loss)
Accumulated Other Comprehensive Loss		
Unrealized gains (losses) on debt securities available-for-sale	\$ --	Net (loss) gain on securities
	--	Income tax expense
	\$ --	Total net (loss) gain on securities

## Amortization of defined benefit pension plan items:

Past service liability	\$ 186	Included in the computation of net periodic (credit) expense <sup>(2)</sup>
Actuarial losses	(5,615)	Included in the computation of net periodic (credit) expense <sup>(2)</sup>
	(5,429)	Total before tax
	1,607	Tax benefit
	\$ (3,822)	Amortization of defined benefit pension plan items, net of tax
Total reclassifications for the period	\$ (3,822)	

(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 debt securities available for sale and equity investments with readily determinable fair values at September 30, 2018 and December 31, 2017:

(in thousands)	<b>September 30, 2018</b>			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	
<b>Debt securities available-for-sale</b>				
<b>Mortgage-Related Debt Securities:</b>				
GSE certificates	\$ 1,892,104	\$ 5,113	\$ 33,361	\$ 1,863,856
GSE CMOs	919,382	3,791	6,133	917,040
<b>Total mortgage-related debt securities</b>	<b>\$ 2,811,486</b>	<b>\$ 8,904</b>	<b>\$ 39,494</b>	<b>\$ 2,780,896</b>
<b>Other Debt Securities:</b>				
GSE debentures	\$ 1,043,927	\$ 632	\$ 22,868	\$ 1,021,691
Asset-backed securities <sup>(1)</sup>	387,782	1,075	534	388,323
Municipal bonds	69,276	100	1,877	67,499
Corporate bonds	445,902	10,384	655	455,631
Capital trust notes	48,265	6,639	4,661	50,243
<b>Total other debt securities</b>	<b>\$ 1,995,152</b>	<b>\$ 18,830</b>	<b>\$ 30,595</b>	<b>\$ 1,983,387</b>
<b>Total other securities available for sale <sup>(2)</sup></b>	<b>\$ 4,806,638</b>	<b>\$ 27,734</b>	<b>\$ 70,089</b>	<b>\$ 4,764,283</b>
<b>Equity securities:</b>				
Preferred stock	\$ 15,292	\$ --	\$ 138	\$ 15,154
Mutual funds and common stock <sup>(3)</sup>	16,874	376	680	16,570
<b>Total equity securities</b>	<b>\$ 32,166</b>	<b>\$ 376</b>	<b>\$ 818</b>	<b>\$ 31,724</b>
<b>Total securities</b>	<b>\$ 4,838,804</b>	<b>\$ 28,110</b>	<b>\$ 70,907</b>	<b>\$ 4,796,007</b>

(1) The underlying assets of the asset-backed securities are substantially guaranteed by the U.S. Government.

(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At September 30, 2018, the non-credit portion of OTTI recorded in AOCL was \$8.6 million before taxes.

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

(in thousands)	<b>December 31, 2017</b>			Fair Value
	Amortized Cost	Gross Unrealized	Gross Unrealized	



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		Gain	Loss	
<b>Mortgage-Related Securities:</b>				
GSE certificates	\$ 2,023,677	\$ 46,364	\$ 1,199	\$ 2,068,842
GSE CMOs	536,284	14,446	826	549,904
<b>Total mortgage-related securities</b>	<b>\$ 2,559,961</b>	<b>\$ 60,810</b>	<b>\$ 2,025</b>	<b>\$ 2,618,746</b>
<b>Other Securities:</b>				
U. S. Treasury obligations	\$ 199,960	\$ --	\$ 62	\$ 199,898
GSE debentures	473,879	2,044	2,665	473,258
Municipal bonds	70,381	540	801	70,120
Corporate bonds	79,702	11,073	--	90,775
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
<b>Total other securities</b>	<b>\$ 904,318</b>	<b>\$ 20,784</b>	<b>\$ 12,421</b>	<b>\$ 912,681</b>
<b>Total securities available for sale <sup>(2)</sup></b>	<b>\$ 3,464,279</b>	<b>\$ 81,594</b>	<b>\$ 14,446</b>	<b>\$ 3,531,427</b>

(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 September 30, 2018 and December 31, 2017, respectively, the Company had \$654.9 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 nine months ended September 30, 2018 and 2017:

(in thousands)	<b>For the Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Gross proceeds	\$--	\$246,209
Gross realized gains	--	1,986

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)	<b>For the Nine Months Ended September 30, 2018</b>
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	49
Ending credit loss amount as of September 30, 2018	<u>\$196,284</u>

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The following table summarizes, by contractual maturity, the amortized cost of securities at September 30, 2018:

	Mortgage- Related Securities	Average Yield	U.S. Government and GSE Obligations	Average Yield	State, County, and Municipal Yield <sup>(1)</sup>	Average Yield <sup>(1)</sup>	Other Debt Securities <sup>(2)</sup>	Average Yield	Fair Value
(dollars in thousands)									
Available-for-Sale Debt Securities: <sup>(3)</sup>									
Due within one year	\$ --	--%	\$ --	--%	\$ 149	6.51%	\$ --	--%	\$ 151
Due from one to five years	1,378,471	3.31	6,950	3.84	294	6.63	78,787	3.64	1,463,371
Due from five to ten years	326,275	3.44	927,006	3.33	--	--	367,115	4.02	1,605,017
Due after ten years	1,106,740	3.19	109,971	3.68	68,833	2.88	436,047	3.23	1,695,744
Total debt securities available for sale	\$ 2,811,486	3.28%	\$ 1,043,927	3.37%	\$ 69,276	2.90%	\$ 881,949	3.60%	\$ 4,764,283

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

(2) Includes corporate bonds, capital trust notes, and asset-backed securities.

(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 September 30, 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:						
U. S. Government agency and GSE obligations	\$ 992,186	\$ 22,868	\$ --	\$ --	\$ 992,186	\$ 22,868
GSE certificates	1,209,277	31,983	18,248	1,378	1,227,525	33,361
GSE CMOs	488,185	6,133	--	--	488,185	6,133
Asset-backed securities	77,000	534	--	--	77,000	534
Municipal bonds	5,884	14	50,082	1,863	55,966	1,877
Corporate bonds	160,268	655	--	--	160,268	655
Capital trust notes	--	--	39,109	4,661	39,109	4,661
Equity securities	19,105	196	11,184	622	30,289	818
Total temporarily impaired securities	\$ 2,951,905	\$ 62,383	\$ 118,623	\$ 8,524	\$ 3,070,528	\$ 70,907



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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
Temporarily Impaired Available-for-Sale Securities:						
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 September 30, 2018, the Company had unrealized losses on certain GSE obligations, municipal bonds, corporate bonds, asset-backed securities, capital trust notes, and equity securities. The unrealized losses on the Company's GSE obligations, municipal bonds, corporate bonds, asset-backed securities and capital trust notes at September 30, 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 September 30, 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 September 30, 2018 and December 31, 2017 consisted of six agency mortgage-related securities, five capital trust notes, three municipal bonds, and one mutual fund. At September 30, 2018, the fair value of securities having a continuous loss position for twelve months or more was 6.7% below the collective amortized cost of \$127.1 million. At December 31, 2017, the fair value of such securities was 8.5% below the collective amortized cost of \$118.2 million. At September 30, 2018 and December 31, 2017, the combined market value of the respective securities represented unrealized losses of \$8.5 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:

	September 30, 2018		December 31, 2017	
	Amount	Percent of Loans Held for Investment	Amount	Percent of Loans Held for Investment
(dollars in thousands)				
<b>Loans Held for Investment:</b>				
<b>Mortgage Loans:</b>				
Multi-family	\$ 29,546,399	74.22%	\$ 28,074,709	73.19%
Commercial real estate	7,033,629	17.67	7,322,226	19.09
One-to-four family	456,317	1.15	477,228	1.24
Acquisition, development, and construction	433,976	1.09	435,825	1.14
<b>Total mortgage loans held for investment</b>	<b>37,470,321</b>	<b>94.13</b>	<b>\$ 36,309,988</b>	<b>94.66</b>
<b>Other Loans:</b>				
Commercial and industrial	1,622,983	4.08	1,377,964	3.59
Lease financing, net of unearned income of \$55,056 and \$65,041, respectively	703,696	1.77	662,610	1.73
<b>Total commercial and industrial loans <sup>(1)</sup></b>	<b>2,326,679</b>	<b>5.85</b>	<b>2,040,574</b>	<b>5.32</b>
Other	9,031	0.02	8,460	0.02
<b>Total other loans held for investment</b>	<b>2,335,710</b>	<b>5.87</b>	<b>2,049,034</b>	<b>5.34</b>
<b>Total loans held for investment</b>	<b>\$ 39,806,031</b>	<b>100.00%</b>	<b>\$ 38,359,022</b>	<b>100.00%</b>
Net deferred loan origination costs	32,240		28,949	
Allowance for losses on non-covered loans	(159,655)		(158,046)	
<b>Loans held for investment, net</b>	<b>\$ 39,678,616</b>		<b>\$ 38,229,925</b>	
Loans held for sale	--		35,258	
<b>Total loans, net</b>	<b>\$ 39,678,616</b>		<b>\$ 38,265,183</b>	

(1) Includes specialty finance loans and leases of \$1.8 billion at September 30, 2018 and \$1.5 billion at December 31, 2017, and other C&I loans of \$482.4 million and \$500.8 million, respectively, at September 30, 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 ADC loans for investment. One-to-four family loans held for investment were originated through the Company's former 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.

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.



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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 loans held for investment at September 30, 2018 were loans of \$55.3 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 September 30, 2018 the Company had no loans held for sale as compared to \$35.3 million at December 31, 2017. 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 September 30, 2018:

(in thousands)	Loans 30-89 Days Past Due	Non- Accrued Loans	Loans 90 Days or More Delinquent and	Total Past Due Loans	Current Loans	Total Loans Receivable
----------------	---------------------------------	--------------------------	---	----------------------------	------------------	---------------------------

			Still Accruing Interest			
Multi-family	\$ 288	\$ 5,236	\$ --	\$ 5,524	\$ 29,540,875	\$ 29,546,399
Commercial real estate	567	4,547	--	5,114	7,028,515	7,033,629
One-to-four family	1,967	1,665	--	3,632	452,685	456,317
Acquisition, development, and construction	--	--	--	--	433,976	433,976
Commercial and industrial <sup>(1) (2)</sup>	534	42,611	--	43,145	2,283,534	2,326,679
Other	297	13	--	310	8,721	9,031
<b>Total</b>	<b>\$ 3,653</b>	<b>\$ 54,072</b>	<b>\$ --</b>	<b>\$ 57,725</b>	<b>\$ 39,748,306</b>	<b>\$ 39,806,031</b>

(1) Includes \$534,000 and \$41.3 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 and Still Accruing Interest						Total Loans Receivable
	Loans 30-89 Days Past Due	Non- Accrual Loans	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 September 30, 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	\$ 29,176,497	\$ 6,934,670	\$ 451,012	\$ 343,134	\$ 36,905,313	\$ 2,224,744	\$ 9,018	\$ 2,233,762
Special mention	289,820	93,168	2,723	81,290	467,001	33,202	--	33,202
Substandard	80,082	5,791	2,582	9,552	98,007	68,733	13	68,746
Doubtful	--	--	--	--	--	--	--	--
<b>Total</b>	<b>\$ 29,546,399</b>	<b>\$ 7,033,629</b>	<b>\$ 456,317</b>	<b>\$ 433,976</b>	<b>\$ 37,470,321</b>	<b>\$ 2,326,679</b>	<b>\$ 9,031</b>	<b>\$ 2,335,710</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	\$ 2,049,042

(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.

#### *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

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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 September 30, 2018, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to \$38.7 million; loans on which forbearance agreements were reached amounted to \$1.4 million.

The following table presents information regarding the Company's TDRs as of September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018			December 31, 2017		
	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
<b>Loan Category:</b>						
Multi-family	\$ 812	\$ 5,002	\$ 5,814	\$ 824	\$ 8,061	\$ 8,885
Commercial real estate	--	--	--	--	368	368
One-to-four family	--	1,033	1,033	--	1,066	1,066
Acquisition, development, and construction	9,552	--	9,552	8,652	--	8,652
Commercial and industrial	--	23,714	23,714	177	26,408	26,585
<b>Total</b>	<b>\$ 10,364</b>	<b>\$ 29,749</b>	<b>\$ 40,113</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 September 30, 2018 and 2017 are summarized as follows:

(dollars in thousands)	For the Three Months Ended September 30, 2018							
	Weighted Average Interest Rate							
	Pre-Modification		Post-Modification		Pre-Modification		Post-Modification	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Charge-of	Capitalized	Charge-of	Capitalized
<b>Loan Category:</b>								
Commercial and industrial	6	1,848	\$ 1,212	3.36%	3.28%	\$ 545	\$ --	

**For the Three Months Ended September 30, 2017**

Loan Category:	Number of Loans	Pre-Modification		Post-Modification		Weighted Average Interest Rate		Charge-of	Capitalized Interest
		Recorded Investment	Recorded Investment	Modification	Modification	Modification Amount	Interest		
Acquisition, development, and construction	2	\$ 8,652	\$ 8,652	5.50%	5.50%	\$ --	\$ --		
Commercial and industrial	22	18,002	7,620	3.18	2.91	6,350	--		
Total	24	\$ 26,654	\$ 16,272			\$ 6,350	\$ --		

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The financial effects of the Company's TDRs for the nine months ended September 30, 2018 and 2017 are summarized as follows:

<b>For the Nine Months Ended September 30, 2018</b>									
Weighted Average Interest Rate									
(dollars in thousands)	Pre-Modification Number of Loans	Pre-Modification Recorded Investment		Post-Modification Recorded Investment		Pre-Modification Interest Rate	Post-Modification Interest Rate	Charge-off Amount	Capitalized Interest
		of Loans	Investment	Investment	Modification				
<b>Loan Category:</b>									
Acquisition, development, and construction	1	\$ 900	\$ 900	4.50%	4.50%	\$ --	\$ --		
Commercial and industrial	18	6,914	4,386	3.30	3.18	2,308	--		
<b>Total</b>	<b>19</b>	<b>\$ 7,814</b>	<b>\$ 5,286</b>			<b>\$ 2,308</b>	<b>\$ --</b>		

<b>For the Nine Months Ended September 30, 2017</b>									
Weighted Average Interest Rate									
(dollars in thousands)	Pre-Modification Number of Loans	Pre-Modification Recorded Investment		Post-Modification Recorded Investment		Pre-Modification Interest Rate	Post-Modification Interest Rate	Charge-off Amount	Capitalized Interest
		of Loans	Investment	Investment	Modification				
<b>Loan Category:</b>									
One-to-four family	4	\$ 810	\$ 990	5.93%	2.21%	\$ --	\$ 12		
Acquisition, development, and construction	2	8,652	8,652	5.50	5.50	--	--		
Commercial and industrial	52	48,716	23,673	3.36	3.29	11,079	--		
<b>Total</b>	<b>58</b>	<b>\$ 58,178</b>	<b>\$ 33,315</b>			<b>\$ 11,079</b>	<b>\$ 12</b>		

At September 30, 2018, five C&I loans, in the amount of \$1.1 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.

**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>
Allowances for Loan Losses at September 30, 2018:			
Loans collectively evaluated for impairment	\$ 128,816	\$ 30,839	\$ 159,655

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



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

(in thousands)	Mortgage	Other	Total
Loans Receivable at September 30, 2018:			
Loans individually evaluated for impairment	\$ 21,418	\$ 43,486	\$ 64,904
Loans collectively evaluated for impairment	37,448,903	2,292,224	39,741,127
Total	\$ 37,470,321	\$ 2,335,710	\$ 39,806,031

(in thousands)	Mortgage	Other	Total
Loans Receivable at December 31, 2017:			
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
Total	\$ 36,309,988	\$ 2,049,034	\$ 38,359,022

**Allowance for Loan Losses**

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

(in thousands)	For the Nine Months Ended September 30,					
	2018			2017		
	Mortgage	Other	Total	Mortgage	Other	Total
Balance, beginning of period	\$ 128,275	\$ 29,771	\$ 158,046	\$ 125,416	\$ 32,874	\$ 158,290
Charge-offs	(5,445)	(9,705)	(15,150)	(375)	(58,203)	(58,578)
Recoveries	242	1,031	1,273	595	594	1,189
Provision for (recovery of) non-covered loan losses	5,744	9,742	15,486	(3,114)	61,131	58,017
Balance, end of period	\$ 128,816	\$ 30,839	\$ 159,655	\$ 122,522	\$ 36,396	\$ 158,918

The following table presents additional information about the Company's impaired loans at September 30, 2018:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Multi-family	\$ 5,815	\$ 8,676	\$ --	\$ 7,282	\$ 323
Commercial real estate	4,386	9,501	--	3,955	62
One-to-four family	1,665	1,719	--	1,812	36

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Acquisition, development, and construction	9,552	10,452	--	11,102	441
Other	43,486	107,101	--	46,092	2,428
<b>Total impaired loans with no related allowance</b>	<b>\$ 64,904</b>	<b>\$ 137,449</b>	<b>\$ --</b>	<b>\$ 70,243</b>	<b>\$ 3,290</b>
Impaired loans with an allowance recorded:					
Multi-family	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	--	--	--	20	--
<b>Total impaired loans with an allowance recorded</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 20</b>	<b>\$ --</b>
Total impaired loans:					
Multi-family	\$ 5,815	\$ 8,676	\$ --	\$ 7,282	\$ 323
Commercial real estate	4,386	9,501	--	3,955	62
One-to-four family	1,665	1,719	--	1,812	36
Acquisition, development, and construction	9,552	10,452	--	11,102	441
Other	43,486	107,101	--	46,112	2,428
<b>Total impaired loans</b>	<b>\$ 64,904</b>	<b>\$ 137,449</b>	<b>\$ --</b>	<b>\$ 70,263</b>	<b>\$ 3,290</b>

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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
<b>Total impaired loans with no related allowance</b>	<b>\$ 80,557</b>	<b>\$ 154,647</b>	<b>\$ --</b>	<b>\$ 69,615</b>	<b>\$ 3,412</b>
<b>Impaired loans with an allowance recorded:</b>					
Multi-family	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	--	--	--	314	--
<b>Total impaired loans with an allowance recorded</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 314</b>	<b>\$ --</b>
<b>Total impaired loans:</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	--	43,388	2,200
<b>Total impaired loans</b>	<b>\$ 80,557</b>	<b>\$ 154,647</b>	<b>\$ --</b>	<b>\$ 69,929</b>	<b>\$ 3,412</b>

**Note 7. Borrowed Funds**

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

(in thousands)	September 30, 2018	December 31, 2017
<b>Wholesale Borrowings:</b>		
FHLB advances	\$ 13,281,000	\$ 12,104,500
Repurchase agreements	200,000	450,000

Total wholesale borrowings	\$ 13,481,000	\$ 12,554,500
Junior subordinated debentures	359,422	359,179
Total borrowed funds	\$ 13,840,422	\$ 12,913,679

The following table summarizes the Company's repurchase agreements accounted for as secured borrowings at September 30, 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	\$ --	\$ --	\$ --	\$ 200,000

At September 30, 2018 and December 31, 2017, the Company had \$359.4 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.

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The following junior subordinated debentures were outstanding at September 30, 2018:

Issuer	Interest Rate	Junior Subordinated Amount Outstanding (dollars in thousands)	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
New York Community Capital Trust V (BONUSES <sup>SM</sup> Units)	6.000%	\$ 145,496	\$ 139,145	Nov. 4, 2002	Nov. 1, 2051	Nov. 4, 2007 <sup>(1)</sup>
New York Community Capital Trust X	3.934	123,712	120,000	Dec. 14, 2006	Dec. 15, 2036	Dec. 15, 2011 <sup>(2)</sup>
PennFed Capital Trust III	5.584	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008 <sup>(2)</sup>
New York Community Capital Trust XI	4.046	59,286	57,500	April 16, 2007	June 30, 2037	June 30, 2012 <sup>(2)</sup>
<b>Total junior subordinated debentures</b>		<b>\$ 359,422</b>	<b>\$ 346,645</b>			

(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.

**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 September 30,			
	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.

(in thousands)	For the Nine Months Ended September 30,			
	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense: <sup>(1)</sup>				
Interest cost	\$ 3,814	\$ 384	\$ 4,211	\$ 433
Expected return on plan assets	(12,106)	--	(12,217)	--
Amortization of prior-service costs	--	(186)	--	(187)
Amortization of net actuarial loss	5,386	229	6,157	206
Net periodic (credit) expense	\$ (2,906)	\$ 427	\$ (1,849)	\$ 452

(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 September 30, 2018, the Company had a total of 4,844,468 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 2,535,523 shares of restricted stock during the nine months ended September 30, 2018. The shares had an average fair value of \$13.51 per share on the date of grant.

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and a vesting period of five years. The nine-month amount includes 77,000 shares that were granted in the third quarter with an average fair value of \$10.94 per share on the date of grant. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period and totaled \$28.1 million and \$27.3 million, respectively, in the nine months ended September 30, 2018 and 2017, including \$9.4 million and \$9.1 million in the three months ended at those dates.

The following table provides a summary of activity with regard to restricted stock awards in the nine months ended September 30, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	5,574,167	\$ 15.38
Granted	2,535,523	13.51
Vested	(842,202)	15.16
Canceled	(233,640)	14.87
Unvested at end of period	7,033,848	14.75

As of September 30, 2018, unrecognized compensation cost relating to unvested restricted stock totaled \$81.9 million. This amount will be recognized over a remaining weighted average period of 3.1 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.

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.



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The following tables present assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, and that were included in the Company's Consolidated Statements of Condition at those dates:

<b>Fair Value Measurements at September 30, 2018</b>						
(in thousands)	Quoted Prices			Significant Unobservable Inputs (Level 3)	Netting Adjustments <sup>(1)</sup>	Total Fair Value
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
<b>Assets:</b>						
<b>Mortgage-Related Debt Securities Available for Sale:</b>						
GSE certificates	\$ --	\$ 1,863,856	\$ --	\$ --	\$ 1,863,856	
GSE CMOs	--	917,040	--	--	917,040	
<b>Total mortgage-related debt securities</b>	<b>\$ --</b>	<b>\$ 2,780,896</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 2,780,896</b>	
<b>Other Debt Securities Available for Sale:</b>						
GSE debentures	\$ --	\$ 1,021,691	\$ --	\$ --	\$ 1,021,691	
Asset-backed securities	--	388,323	--	--	388,323	
Municipal bonds	--	67,499	--	--	67,499	
Corporate bonds	--	455,631	--	--	455,631	
Capital trust notes	--	50,243	--	--	50,243	
<b>Total other debt securities</b>	<b>\$ --</b>	<b>\$ 1,983,387</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 1,983,387</b>	
<b>Total debt securities available for sale</b>	<b>\$ --</b>	<b>\$ 4,764,283</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 4,764,283</b>	
<b>Equity securities:</b>						
Preferred stock	\$ 15,154	\$ --	\$ --	\$ --	\$ 15,154	
Mutual funds and common stock	--	16,570	--	--	16,570	
<b>Total equity securities</b>	<b>\$ 15,154</b>	<b>\$ 16,570</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 31,724</b>	
<b>Total securities</b>	<b>\$ 15,154</b>	<b>\$ 4,780,853</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 4,796,007</b>	

<b>Fair Value Measurements at December 31, 2017</b>						
(in thousands)	Quoted Prices			Significant Unobservable Inputs (Level 3)	Netting Adjustments <sup>(1)</sup>	Total Fair Value
	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			

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	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)		
<b>Assets:</b>					
<b>Mortgage-Related Securities</b>					
<b>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
Municipal bonds	--	70,120	--	--	70,120
Corporate bonds	--	90,775	--	--	90,775
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.

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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 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 had elected the fair value option for its loans held for sale. The loans held for sale at December 31, 2017 consist of one-to-four family none of which were 90 days or more past due at that date.

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:

	September 30, 2018			December 31, 2017		
	Fair Value			Fair Value		
	Carrying Amount			Carrying Amount		
	Less			Less		
(in thousands)	Fair Value	Aggregate	Aggregate	Fair Value	Aggregate	Aggregate
	Carrying	Unpaid	Unpaid	Carrying	Unpaid	Unpaid
	Amount	Principal	Principal	Amount	Principal	Principal
Loans held for sale	\$ --	\$ --	\$ --	\$ 35,258	\$ 34,563	\$ 695

**Table of Contents***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 MSR's for the periods indicated:

(in thousands)	<b>(Loss) Gain Included in</b>			
	<b>Income from Changes in Fair Value <sup>(1)</sup></b>			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Loans held for sale	\$ --	\$ 464	\$ --	\$ 1,059
Mortgage servicing rights	--	(9,743)	(224)	(20,092)
<b>Total loss</b>	<b>\$ --</b>	<b>\$ (9,279)</b>	<b>\$ (224)</b>	<b>\$ (19,033)</b>

(1) Included in Non-interest income.

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

The following tables present, for the nine months ended September 30, 2018 and 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 September 30, 2018	Change in Unrealized Gains/(Losses) Related to Instruments Held at September 30, 2018
		Income/ (Loss)	Comprehensive (Loss) Income	Issuances	Settlements			
Mortgage servicing rights	\$2,729	\$(224)	\$--	\$--	\$(2,505)	\$--	\$--	\$--

(in thousands)	Fair Value January 1, 2017	Total Realized/Unrealized Gains/(Losses) Recorded in				Transfers to/(from) Level 3	Fair Value at September 30, 2017	Change in Unrealized Gains/(Losses) Related to Instruments Held at September 30, 2017
		Income/ (Loss)	Comprehensive (Loss) Income	Issuances	Settlements			
Mortgage servicing rights	\$ 228,099	\$ (34,544)	\$ --	\$ 18,054	\$(208,827)	\$ --	\$ 2,782	\$ (182)
Interest rate lock commitments	982	(713)	--	--	--	--	269	269

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 nine months ended September 30, 2018 or 2017.

**Table of Contents***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 September 30, 2018 and December 31, 2017, and that were included in the Company's Consolidated Statements of Condition at those dates:

**Fair Value Measurements at September 30,  
2018 Using**

(in thousands)	Quoted Prices in Active Markets for Identical Assets			Significant Other Inputs	Significant Observable Inputs	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)			
Certain impaired loans <sup>(1)</sup>	\$ --	\$ --	\$ --	41,636		\$ 41,636
Other assets	--	--		667		667
<b>Total</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>42,303</b>		<b>\$ 42,303</b>

(1) Represents the fair value of impaired loans based on the value of the collateral and 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 Assets			Significant Other Inputs	Significant Observable Inputs	Total Fair Value
	(Level 1)	(Level 2)	(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>\$ --</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.

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 September 30, 2018 and December 31, 2017:

(in thousands)	Carrying Value	Estimated Fair Value	September 30, 2018		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 1,731,754	\$ 1,731,754	\$ 1,731,754	\$ --	\$ --
FHLB stock <sup>(1)</sup>	654,939	654,939	--	654,939	--
Loans, net	39,678,616	38,940,057	--	--	38,940,057
<b>Financial Liabilities:</b>					
Deposits	\$ 30,319,284	30,279,953	\$ 18,909,310 <sup>(2)</sup>	\$ 11,370,643 <sup>(3)</sup>	\$ --
Borrowed funds	13,840,422	13,693,629	--	13,693,629	--

(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.



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(in thousands)	<b>December 31, 2017</b>				
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurement Using 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.

*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.

*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.

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### *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 September 30, 2018 and December 31, 2017.

## **Note 11. Subsequent Events**

On November 6, 2018, the Company completed the offering of \$300 million in fixed-to-floating rate subordinated notes due 2028. The notes will initially bear interest at a rate of 5.90% per annum through November 6, 2023, payable semi-annually in arrears. From November 6, 2023 to November 7, 2028, or up to an early redemption date, the interest rate shall reset to an interest rate per annum equal to the then current three-month LIBOR rate plus 278 bps, payable quarterly in arrears. Beginning on November 6, 2023, through the maturity date, the Company may at its discretion, redeem the notes in whole or in part on any scheduled interest payment date.

## **Note 12. 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 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 is the only component that can be capitalized. The standard required 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 requires 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 are also 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

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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.

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 equity investments were reclassified from securities available for sale to other assets with their related market value changes reflected in earnings for the nine months ended September 30, 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 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 of 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. ASU No. 2017-08 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. 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 through 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

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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 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 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 subsequently issued three amendments to the ASU: ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Leases (Topic 842): Targeted Improvements. The Company will adopt the ASUs as of January 1, 2019. Topic 842 is intended to improve



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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. The Company has the option to recognize and measure leases using one of two transition methods: either at the beginning of the earliest period presented using a modified retrospective approach, or by initially applying the standard at the adoption date and recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Topic 842 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, has completed its review for embedded leases in the Company's contractual arrangements in an effort to identify the Company's full lease population. To date, we have found only an immaterial amount of 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 by an immaterial amount 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 lease accounting package that will prepare the financial statement adjustments and disclosures required by Topic 842.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The purpose of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments in ASU 2018-13 are effective for the Company as of January 1, 2020. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The amendments removed the disclosure requirements for transfers between Levels 1 and 2 of the fair value hierarchy, the disclosure of the policy for timing of transfers between levels of the fair value hierarchy, and the disclosure of the valuation processes for Level 3 fair value measurements. Additionally, the amendments modified the disclosure requirements for investments in certain entities that calculate net asset value and measurement uncertainty. Finally, the amendments added disclosure requirements for the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of ASU 2018-13 is not expected to have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendment. The amendment is effective for the Company as of January 2, 2020. The Company is still assessing the potential impact of ASU 2018-15 and whether to adopt the provisions prior to January 1, 2020.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging ( Topic 815 ) Inclusion of the Secured Overnight Financing Rate ( SOFR ) Overnight Index Swap ( OIS ) Rate as a Benchmark Interest Rate for Hedging Accounting Purposes. The purpose of ASU 2018-16 is to permit the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. The amendments in ASU 2018-16 are effective for the Company as of January 1, 2019. The amendments in ASU 2018-16 should be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The adoption of ASU 2018-16 is not expected to have a material impact on the Company s consolidated financial statements.

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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, in plan, project, seek, strive, try, or future or conditional verbs such as will, would, should, could, 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;

any uncertainty relating to the LIBOR calculation process and the potential phasing out of LIBOR after 2021;

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;

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;

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;

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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 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.

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**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:

	Sept. 30, 2018	At or for the Three Months Ended June 30, 2018	Sept. 30, 2017	At or for the Nine Months E Sept. 30, 2018	
nds)					
ers Equity	\$ 6,794,015	\$ 6,789,352	\$ 6,759,654	\$ 6,794,015	\$
	(2,436,131)	(2,436,131)	(2,436,131)	(2,436,131)	
	(502,840)	(502,840)	(502,840)	(502,840)	
on stockholders equity	\$ 3,855,044	\$ 3,850,381	\$ 3,820,683	\$ 3,855,044	\$
	\$ 51,246,654	\$ 50,469,170	\$ 48,457,891	\$ 51,246,654	\$
	(2,436,131)	(2,436,131)	(2,436,131)	(2,436,131)	
	\$ 48,810,523	\$ 48,033,039	\$ 46,021,760	\$ 48,810,523	\$
on Stockholders Equity	\$ 6,301,525	\$ 6,286,326	\$ 6,262,792	\$ 6,291,911	\$
odwill and CDI	(2,436,131)	(2,436,131)	(2,436,146)	(2,436,131)	



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Common stockholders equity	\$ 3,865,394	\$ 3,850,195	\$ 3,826,646	\$ 3,855,780	\$
	\$ 50,608,283	\$ 49,567,386	\$ 48,526,259	\$ 49,685,717	\$
Goodwill and CDI	(2,436,131)	(2,436,131)	(2,436,146)	(2,436,131)	
Total assets	\$ 48,172,152	\$ 47,131,255	\$ 46,090,113	\$ 47,249,586	\$
Available to Common Shareholders	\$ 98,565	\$ 99,147	\$ 102,261	\$ 296,057	\$
Provision for CDI, net of tax	-	-	14	-	
Income available to common shareholders	\$ 98,565	\$ 99,147	\$ 102,275	\$ 296,057	\$

**PERFORMANCE RATIOS:**

Total assets <sup>(1)</sup>	0.84 %	0.87 %	0.91 %	0.86 %	
Common stockholders equity <sup>(2)</sup>	6.26	6.31	6.53	6.27	
Book value per common share	\$ 12.83	\$ 12.82	\$ 12.79	\$ 12.83	\$
Common stockholders equity to total assets	12.28	12.46	12.91	12.28	

**EFFICIENCY RATIOS:**

Total tangible assets <sup>(1)</sup>	0.89 %	0.91 %	0.96 %	0.90 %	
Total tangible common stockholders equity <sup>(2)</sup>	10.20	10.30	10.69	10.24	
Book value per common share	\$ 7.86	\$ 7.85	\$ 7.81	\$ 7.86	\$
Common stockholders equity to tangible assets	7.90	8.02	8.30	7.90	

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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 September 30, 2018, we had total assets of \$51.2 billion, total loans of \$39.8 billion, deposits of \$30.3 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 223 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 September 30, 2018, the Company reported net income of \$106.8 million, down 0.5% from the \$107.4 million reported for the three months ended June 30, 2018, and down 3.3% from the \$110.5 million reported for the three months ended September 30, 2017. Net income available to common shareholders was \$98.6 million, down 0.6% from the \$99.1 million reported for the three months ended June 30, 2018 and down 3.6% from the \$102.3 million reported for the three months ended September 30, 2017. For the three months ended September 30, 2017, both net income and net income available to common shareholders included an \$82.0 million pre-tax gain on the sale of certain covered one-to-four family residential loans and mortgage banking operations and a \$44.6 million provision for loan losses tied primarily to taxi medallion-related loans. Diluted EPS for the three months ended September 30, 2018 were \$0.20, unchanged from the prior quarter and as compared to \$0.21 in the year-ago quarter.

For the nine months ended September 30, 2018, the Company reported net income of \$320.7 million, down 2.7% compared to the \$329.7 million for the nine months ended September 30, 2017. Net income available to common shareholders was \$296.1 million for the current nine-month period, down 5.5% from \$313.3 million for the year-ago nine-month period. In the current nine-month period, the Company paid \$24.6 million in preferred stock dividends compared to \$16.4 million in the year-ago nine-month period. Year-to-date 2018 diluted EPS were \$0.60, down 6.3% compared to \$0.64 year-to-date 2017.

The key trends in the quarter were:

#### ***Continued Balance Sheet Growth***

In response to the SIFI threshold being raised to \$250 billion earlier this year, the Company resumed its organic balance sheet growth strategy. Total assets at September 30, 2018 were \$51.2 billion, up over \$2.0 billion since December 31, 2017. Most of this growth occurred during the past two quarters and was driven by growth in our loan portfolio, primarily in the multi-family and C&I segments, and by growth in our investment securities portfolio, as we continue to redeploy portions of our excess cash balances into higher yielding investments. This growth was funded

primarily through deposits, which was mainly due to growth in CDs.

***Loan Portfolio Increases***

Total loans held for investment grew \$1.5 billion from December 31, 2017 to \$39.8 billion or 5% annualized and \$390.4 million or 4% annualized compared to the balance at June 30, 2018. The growth in both periods was driven by our multi-family and C&I portfolios. Multi-family loans grew to \$29.5 billion in the current third quarter. This represents annualized growth of \$1.5 billion or 7%, compared to December 31, 2017 and multi-family loans grew by \$334.9 million or 4.6% annualized, compared to the prior quarter. C&I loans, which are primarily specialty finance related-loans, increased \$286.1 million or 19% annualized to \$2.3 billion compared to the balance at December 31, 2017 and they increased \$156.2 million or 29% annualized relative to the prior quarter.

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### ***Re-deployment of Excess Cash***

During the third quarter of 2018, we continued our reinvestment strategy and re-deployed additional amounts of our excess cash into higher yielding investment securities. Accordingly, the balance of debt securities available-for-sale increased \$641.4 million to \$4.8 billion compared to the previous quarter, while our cash and cash equivalents balance declined to \$1.7 billion compared to \$2.2 billion as of June 30, 2018.

### ***Operating Expenses Continue to Decline***

Operating expenses declined further during the current third quarter. Non-interest expenses for the third quarter of 2018 came in at \$134.4 million, down 2.7% compared to the second quarter of the year. Compared to the third quarter of 2017, non-interest expenses declined \$27.8 million or 17.1%. For the first nine months of 2018, non-interest expenses decreased \$81.3 million or 16.5%, keeping the Company on track to meet its expense reduction goals for 2018. Our efficiency ratio rose to 49.35% from 48.19% in the previous quarter due to a lower level of revenues.

### ***Organic Deposit Growth Resumed***

In conjunction with the Company's strategy to focus on organic deposit growth, total deposits increased \$1.2 billion or 6% annualized on a year-to-date basis and \$763 million or 10% annualized, sequentially to \$30.3 billion. Deposit growth was driven in large part through CDs and to a lesser extent, through non-interest-bearing accounts. On a year-to-date basis, CDs rose \$2.8 billion or 43% annualized and on a linked-quarter basis, CDs grew \$1.1 billion, also 43% annualized. Non-interest-bearing accounts increased \$211 million, or 12% on a year-to-date annualized basis and \$25 million, or 4% annualized on a linked-quarter basis.

### ***Our Net Interest Margin Was Pressured During the Quarter***

The NIM for the third quarter of 2018 declined 17 basis points to 2.16% compared to the second quarter of 2018 and declined 37 basis points compared to the third quarter of 2017. The decline was largely attributable to higher short term funding costs and a lower level of prepayments.

### ***Our Asset Quality Was Relatively Stable***

NPAs declined 19.9% on a year-over-year basis to \$67.8 million or 13 basis points of total assets compared to 17 basis points of total assets in the year-ago quarter. NPAs also declined 4.0% compared to the level at June 30, 2018. Net charge-offs were \$2.2 million or one basis point of average loans down 57.8% sequentially.

## **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>		
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017		Sept. 30, 2018	June 31, 2018	Sept. 30, 2017
High	2.99%	2.94%	1.95%	High	3.06%	3.07%	2.22%
Low	2.70	2.55	1.63	Low	2.77	2.67	1.88
Average	2.81	2.77	1.81	Average	2.88	2.87	2.06

(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 third quarter of 2018,

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prepayment income from loans contributed \$8.3 million to interest income; in the trailing and year-earlier quarters, the contribution was \$15.8 million and \$14.1 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 September 30, 2018, June 30, 2018, and September 30, 2017. While unemployment declined year-over-year in many of these markets, the sequential comparison indicates declines in most markets and a slight increases in Arizona.

	<b>For the Month Ended</b>		
	September 30, 2018	June 30, 2018	September 30, 2017
Unemployment rate:			
United States	3.6%	4.2%	4.1%
New York City	4.0	4.3	4.5
Arizona	4.9	4.8	4.9
Florida	3.0	3.9	4.0
New Jersey	4.1	4.3	4.7
New York	3.8	4.2	4.6
Ohio	4.1	5.3	4.7

(Source: U.S. Department of Labor)

	<b>For the Twelve Months Ended</b>		
	September 2018	June 2018	September 2017
Change in prices:	2.3%	2.9%	2.2%

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 64.5% of our multi-family loans and 67.5% of our CRE loans are secured by properties in New York, with Manhattan accounting for 25.8% and 48.7% of our multi-family and CRE loans, respectively.

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

**For the Three Months Ended**

	September 30, 2018	June 30, 2018	September 30, 2017
<b>Rental Vacancy Rates:</b>			
New York residential	5.7%	5.3%	5.6%
Manhattan office	7.8	8.1	10.2

Lastly, the Consumer Confidence Index<sup>®</sup> increased to 138.4 in September 2018 compared to 126.4 in June 2018 and 95.3 in September 2017. An index level of 90 or more is considered indicative of a strong economy.

### **Recent Events**

#### ***Board of Directors Authorizes \$300 Million Common Share Repurchase Program***

On October 24, 2018, the Company announced that it had received regulatory approval to repurchase its common stock. Accordingly, the Board of Directors approved a \$300 million common share repurchase program. The repurchase program will

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be funded through the issuance of a like amount of subordinated notes. Purchases will be made from time to time in open market transactions, subject to market conditions.

### ***Issuance of \$300 million of Subordinated Notes***

On November 6, 2018, the Company completed the offering of \$300 million in fixed-to-floating rate subordinated notes due 2028. The notes will initially bear interest at a rate of 5.90% per annum through November 6, 2023, payable semi-annually in arrears. From November 6, 2023 to November 7, 2028, or up to an early redemption date, the interest rate shall reset to an interest rate per annum equal to the then current three-month LIBOR rate plus 278 bps, payable quarterly in arrears. Beginning on November 6, 2023, through the maturity date, the Company may at its discretion, redeem the notes in whole or in part on any scheduled interest payment date.

### ***Received Final Regulatory Approval to Merge Subsidiary Banks***

On October 1, 2018, we received regulatory approval to merge our commercial bank subsidiary, New York Commercial Bank, with and into our primary banking subsidiary, New York Community Bank. The merger is expected to close during the fourth quarter of 2018. Once the merger is consummated, all 30 branches of New York Commercial Bank will operate as branches of New York Community Bank. The merger of our two bank subsidiaries is not expected to impact either bank's customer base.

### ***Declaration of Dividend on Common Shares***

On October 23, 2018, the Board of Directors declared a quarterly cash dividend of \$0.17 per share on our common stock, payable on November 20, 2018 to shareholders of record at the close of business on November 6, 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.

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.

### ***Allowance for Loan Losses***

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

Although 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 loan losses is largely the



same for each of the Community Bank and the Commercial Bank.

The methodology used for the allocation of the allowance for loan losses at September 30, 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 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 loan losses 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 loan is deemed to be impaired, management measures the extent of the impairment and establishes a specific valuation allowance for that amount. A 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 loans individually evaluated for impairment in our portfolios. Smaller-balance homogenous loans

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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 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;

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 loan losses that is applied to each significant loan portfolio segment to determine the total allowance for loan losses.

The historical loss period we use to determine the allowance for loan losses on loans is a rolling 31-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 loan loss allowances is reviewed quarterly by management and the Board of Directors of the Community Bank or the Commercial Bank, as applicable.

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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 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 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 loan losses.

## ***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. 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 unit is the same as our operating segment and reportable segment. If we change our strategy or if market conditions shift, our judgments may change, which may result in adjustments to the recorded goodwill balance.

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 September 30, 2018, we had goodwill of \$2.4 billion. During the quarter ended September 30, 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.

### **Balance Sheet Summary**

Total assets at September 30, 2018 were \$51.2 billion, up \$2.1 billion or 4% from year-end 2017 and up \$777.5 million or 6% annualized from the level at June 30, 2018. Total loans held for investment increased \$1.5 billion or 4% to \$39.8 billion from December 31, 2017 and \$390.4 million or 4% annualized compared to the balance at June 30, 2018. As in previous quarters,

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overall loan growth was driven by our multi-family loans, which ended the quarter at \$29.5 billion, up \$1.5 billion or 5% compared to the balance at year-end 2017 and \$334.9 million or 5% annualized compared to the balance at June 30, 2018.

During the current third quarter, we also grew our securities portfolio, as we continued to reinvest our excess cash position. Accordingly, the balance of available-for-sale securities increased \$641 million to \$4.8 billion compared to June 30, 2018 and by \$1.2 billion compared to December 31, 2017. Total securities as a percentage of total assets increased to 9.4% during the current third quarter compared to 8.2% the prior quarter-end and 7.2% at year-end 2017. At September 30, 2018, 23.5% of the securities portfolio was variable rates, mainly short term LIBOR.

Our growth during this quarter was funded primarily through deposits. Total deposits rose \$1.2 billion or 6% annualized to \$30.3 billion compared to the level at December 31, 2017 and \$763 million or 10% annualized compared to the level at June 30, 2018. Deposit growth was driven in large part through certificates of deposit ( CDs ) and to a lesser extent, through non-interest-bearing accounts. On a year-to-date basis, CDs rose \$2.8 billion or 43% annualized and on a linked-quarter basis, CDs grew \$1.1 billion, also 43% annualized. Non-interest-bearing accounts increased \$211 million, or 12% on a year-to-date annualized basis and \$25 million, or 4% annualized on a linked-quarter basis.

Total borrowed funds were \$13.8 billion at September 30, 2018, up \$927 million, or 10% annualized compared to year-end 2017 and up \$47 million, or 1% annualized compared to second quarter 2018. The entire increase was due to higher wholesale borrowings, consisting primarily of Federal Home Loan Bank of New York borrowings.

Total stockholders' equity at September 30, 2018 was \$6.8 billion, relatively unchanged from the level at both June 30, 2018 and at September 30, 2017. Common stockholders' equity to total assets represented 12.28% at September 30, 2018, compared to 12.46% and 12.91%, at June 30, 2018 and September 30, 2017, respectively. Book value per common share equaled \$12.83 at September 30, 2018, compared to \$12.82 at June 30, 2018 and \$12.79 at September 30, 2017.

Excluding goodwill of \$2.4 billion, tangible common stockholders' equity totaled \$3.9 billion at September 30, 2018, also relatively unchanged compared to both June 30, 2018 and September 30, 2017. Tangible common stockholders' equity to tangible assets was 7.90%, 8.02%, and 8.30%, respectively, at September 30, 2018, June 30, 2018, and September 30, 2017. Tangible book value per share equaled \$7.86 at September 30, 2018, \$7.85 at June 30, 2018, and \$7.81 at September 30, 2017.

**Loans*****Loans Held for Investment and Originations***

Loans held for investment, net totaled \$39.7 billion at September 30, 2018, a \$1.4 billion or 5% annualized increase from December 31, 2017, and an increase of \$391 million from June 30, 2018. The Company's overall loan growth was driven by growth in our multi-family and commercial and industrial ( C&I ) loan portfolios. Multi-family loans grew to \$29.5 billion in the current third quarter. This represents annualized growth of \$1.5 billion or 7%, compared to December 31, 2017. C&I loans, which are primarily specialty finance related-loans, increased \$286 million or 19% annualized to \$2.3 billion compared to the balance at December 31, 2017. Conversely, the commercial real estate ( CRE ) loan portfolio declined both on a linked-quarter and year-to-date basis, due to payoffs and scheduled maturities. CRE loans declined \$289 million, or 5% annualized to \$7.0 billion compared to year-end 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 September 30, 2018, loans secured by multi-family, non-owner occupied CRE, and ADC properties represented 756.8% of the consolidated Banks' total risk-based capital, within our limit of 850% agreed upon with our regulators.

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

(in thousands)	For the Three Months Ended			For the Nine Months Ended	
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
<b>Mortgage Loans Originated for Investment:</b>					
Multi-family	\$ 1,566,861	\$ 2,070,222	\$ 1,432,424	\$ 5,343,294	\$ 3,339,302
Commercial real estate	301,414	254,808	249,773	733,364	692,187
One-to-four family residential	5,025	--	22,047	7,724	116,603
Acquisition, development, and construction	15,233	13,804	21,754	44,358	55,509
Total mortgage loans originated for investment	\$ 1,888,533	\$ 2,338,834	\$ 1,725,998	\$ 6,128,740	\$ 4,203,601

**Table of Contents****Other Loans Originated for Investment:**

Specialty finance	\$ 509,165	\$ 486,890	\$ 468,735	\$ 1,392,944	\$ 1,236,817
Other commercial and industrial	140,452	119,449	115,569	377,515	388,511
Other	839	1,322	700	3,039	2,370
Total other loans originated for investment	\$ 650,456	\$ 607,661	\$ 585,004	\$ 1,773,498	\$ 1,627,698
Total loans originated for investment	\$ 2,538,989	\$ 2,946,495	\$ 2,311,002	\$ 7,902,238	\$ 5,831,299

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

*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 \$1.6 billion, or 61.7%, of the held-for-investment loans we produced in the current third quarter, reflecting a year-over-year increase of \$134.4 million or 9% and a linked quarter decrease of \$503.4 million or 24%. At September 30, 2018, multi-family loans represented \$29.5 billion, or 74.2%, of total loans held for investment, reflecting a \$1.5 billion increase from the balance at December 31st and a \$2.4 billion increase from the balance at September 30, 2017.

The average multi-family loan had a principal balance of \$6.0 million at the end of the current third quarter, which was modestly higher than the balance at June 30, 2018 and up 7% from the \$5.6 million at September 30, 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 from origination; at September 30, 2018, June 30, 2018, and September 30, 2017, the weighted average life of the multi-family loan portfolio was 2.9 years, 2.8 years, and 2.7 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

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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 September 30, 2018, the majority of our multi-family loans were secured by rent-regulated rental apartment buildings. In addition, 77.4% of our multi-family loans were secured by buildings in the metro New York area and 3.7% were secured by buildings elsewhere in New York State. The remaining multi-family loans of \$5.6 billion or 18.9% were secured by buildings outside these markets, including in the three other states served by our retail branch offices.

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 \$7.0 billion, or 17.7%, of total loans held for investment at the end of the current third quarter, a \$120.2 million decrease from the balance at June 30, 2018, and a \$516.8 million decrease from the balance at September 30, 2017. CRE loans represented \$301.4 million, or 11.9%, of loans originated for investment in the current third quarter, reflecting a linked-quarter increase of \$46.6 million and a year-over-year increase of \$51.6 million.

At September 30, 2018, the average CRE loan had a principal balance of \$5.9 million, up modestly from the average principal balance at June 30, 2018 and up 2% from September 30, 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 September 30, 2018, 87.5% of our CRE loans were secured by properties in the metro New York market, while properties in other parts of New York State accounted for 3.1% of the properties securing our CRE credits, while all other states accounted for \$663.3 million or 9.4%, 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 from origination; the weighted average life of the CRE portfolio was 3.0 years, 2.9 years, and 2.9 years at September 30, 2018, June 30, 2018, and September 30, 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.

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

The September 30, 2018 balance of one-to-four family loans held for investment modestly increased on a sequential to \$456.3 million, representing 1.2% of total loans held for investment at that date.

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

The balance of ADC loans rose \$9.1 million to \$434.0 million sequentially, representing 1.1% of total held-for-investment loans at the current third-quarter end. In the third quarter of 2018, we originated ADC loans of \$15.2 million, a \$1.4 million increase from the trailing-quarter volume and a year-over-year decrease of \$6.5 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. We had no recoveries against guarantees for either the nine months ended September 30, 2018 or 2017.

### *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 September 30, 2018, specialty finance loans and leases represented \$1.8 billion of total loans held for investment, up \$165.5 million or 10% sequentially and up 28% or \$407.7 million on a year-over-year basis. For the three months ended September 30, 2018, we originated \$509.2 million of specialty finance loans and leases compared to \$486.9 million for the three months ended June 30, 2018 and \$468.7 million for the three months ended September 30, 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 September 30, 2018, other C&I loans totaled \$482.4 million, compared to \$491.7 million at June 30, 2018 and \$545.5 million at September 30, 2017.

Included in the quarter-end balance were taxi medallion-related loans of \$80.7 million, representing 0.20% of total held-for-investment loans at September 30, 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

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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.

### ***Other Loans***

At September 30, 2018, other loans totaled \$9.0 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 September 30, 2018, the largest loan in our portfolio was a \$246.0 million multi-family loan originated by the Community Bank on February 8, 2018 collateralized by six properties in Brooklyn, New York. As of the date of this report, the loan has been current since origination.

### **Geographical Analysis of the Portfolio of 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 September 30, 2018:

At September 30, 2018

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(dollars in thousands)	Multi-Family Loans		Commercial Real Estate Loans	
	Amount	Percent of Total	Amount	Percent of Total
<b>New York City:</b>				
Manhattan	\$7,627,654	25.82%	\$3,427,967	48.74%
Brooklyn	4,982,055	16.86	538,229	7.65
Bronx	3,926,882	13.29	95,139	1.35
Queens	2,447,633	8.28	632,215	8.99
Staten Island	77,521	0.26	56,201	0.80
<b>Total New York City</b>	<b>\$19,061,745</b>	<b>64.51%</b>	<b>\$4,749,751</b>	<b>67.53%</b>
New Jersey	3,264,650	11.05	523,148	7.44
Long Island	544,410	1.84	880,089	12.51
<b>Total Metro New York</b>	<b>\$22,870,805</b>	<b>77.40%</b>	<b>\$6,152,988</b>	<b>87.48%</b>
<b>Other New York State</b>	<b>1,085,872</b>	<b>3.68</b>	<b>217,363</b>	<b>3.09</b>
All other states	5,589,722	18.92	663,278	9.43
<b>Total</b>	<b>\$29,546,399</b>	<b>100.00%</b>	<b>\$7,033,629</b>	<b>100.00%</b>

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At September 30, 2018, the largest concentration of ADC loans held for investment was located in New York City, with a total of \$343.1 million. The majority of our other loans held for investment were secured by properties and/or businesses located in Metro New York.

***Loans Held for Sale***

At September 30, 2018 and June 30, 2018, the Company had no loans held for sale compared to \$35.3 million at December 30, 2017. The declines are attributable to the Company's exit from the mortgage banking business in the third quarter of last year.

***Outstanding Loan Commitments***

At September 30, 2018, we had outstanding loan commitments of \$1.9 billion, down \$5.6 million from the level at December 31, 2017.

Multi-family, CRE, and ADC loans together represented \$573.4 million of held-for-investment loan commitments at the end of the third quarter, while other loans represented \$1.4 billion, respectively. Included in the latter amount were commitments to originate specialty finance loans and leases of \$911.8 million and commitments to originate other C&I loans of \$334.9 million.

In addition to loan commitments, we had commitments to issue financial stand-by, performance stand-by, and commercial letters of credit totaling \$376.8 million at September 30, 2018, a \$37.4 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*****Loans Held for Investment and Repossessed Assets***

Total NPAs declined \$3 million, or 4% to \$67.8 million, or 0.13% of total assets at September 30, 2018 compared to \$70.7 million, or 0.14% of total assets at June 30, 2018. NPAs were down \$17 million, or 20% compared to \$84.7 million, or 0.17% of total assets at September 30, 2017.

NPLs were \$54.1 million at September 30, 2018, down 4% sequentially and 22% year-over-year. For the current third quarter, NPLs represented 0.14% of total loans, unchanged from the prior quarter, and 0.18% of total loans in the year-ago quarter. The majority of NPLs are taxi medallion-related loans, which were \$41.3 million in the current third quarter versus \$43.5 million in the prior quarter and \$43.4 million in the year-ago quarter.

Reposessed assets totaled \$13.8 million, a decrease of 3% compared to the prior quarter and a decrease of 13% compared to the year-ago quarter. As with our NPLs, the majority of our reposessed assets consist of reposessed taxi medallions, which represented \$8.6 million of reposessed assets during the current quarter, \$9.0 million in the prior quarter, and \$6.5 million in the year-ago quarter. At September 30, 2018, the Company's total taxi medallion-related loans were \$80.7 million compared to \$85.8 million at the prior quarter end.

In the third quarter of 2018, the Company recorded net charge-offs of \$2.2 million or 0.01% of average loans compared to \$5.2 million or 0.01% in the prior quarter and \$40.4 million or 0.11% in the year-ago quarter. As in the previous quarter, the majority of our net charge-offs were taxi medallion-related. Aside from taxi medallion-related charge-offs, the Company did not have any charge-offs this quarter in its multi-family, CRE, and C&I portfolios while



recording modest recoveries.

The following table presents our non-performing loans by loan type and the changes in the respective balances from December 31, 2017 to September 30, 2018:

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(in thousands)	September 30, 2018	December 31, 2017	Change from December 31, 2017 to September 30, 2018	
			Amount	Percent
<b>Non-Performing Assets:</b>				
Non-accrual mortgage loans:				
Multi-family	\$5,236	\$11,078	(\$5,842)	-52.74%
Commercial real estate	4,547	6,659	(\$2,112)	-31.72%
One-to-four family residential	1,665	1,966	(\$301)	-15.31%
Acquisition, development, and construction	-	6,200	(\$6,200)	NM
Total non-accrual mortgage loans	11,448	25,903	(\$14,455)	-55.80%
Other non-accrual loans (1)	42,624	47,779	(\$5,155)	-10.79%
<b>Total non-performing loans</b>	<b>54,072</b>	<b>73,682</b>	<b>(\$19,610)</b>	<b>-26.61%</b>
Reposessed assets (2)	13,765	16,400	(\$2,635)	-16.07%
<b>Total non-performing assets</b>	<b>\$67,837</b>	<b>\$90,082</b>	<b>(\$22,245)</b>	<b>-24.69%</b>

(1) Includes \$41.3 million and \$46.7 million of non-accrual taxi medallion-related loans at September 30, 2018 and December 31, 2017, respectively.

(2) Includes \$8.6 million and \$8.2 million of reposessed taxi medallions at September 30, 2018 and December 31, 2017, respectively.

The following table sets forth the changes in non-performing loans over the nine months ended September 30, 2018:

(in thousands)	
Balance at December 31, 2017	\$73,682
New non-accrual	27,779
Charge-offs	(9,284)
Transferred to other real estate owned	(3,124)
Loan payoffs, including dispositions and principal pay-downs	(34,981)
Restored to performing status	--
<b>Balance at September 30, 2018</b>	<b>\$54,072</b>

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 September 30, 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. 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 and assets that are acquired through foreclosure are classified as either OREO or repossessed assets, and are recorded at fair value at the date of acquisition, less the estimated cost of selling the property/asset. Subsequent declines in the fair value of OREO or repossessed assets 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/assets on an as-needed basis, and not less than annually, until they are sold. We dispose of such properties/assets as quickly and prudently as possible, given current market conditions and the property's or asset'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 September 30, 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.

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.

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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 5.9%, respectively, of total loans held for investment at September 30, 2018, comparable to, or consistent with, the levels at both December 31, 2017 and September 30, 2017. Furthermore, at the end of the current third quarter, only 1.8% of our other loans and 0.36% 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.

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

(dollars in thousands)	September 30, December 31,		Change from December 31, 2017 to September 30, 2018	
	2018	2017	Amount	Percent
<b>Non-Covered Loans 30-89 Days Past Due:</b>				
Multi-family	\$ 288	\$ 1,258	\$ (970)	(77.11)%
Commercial real estate	567	13,227	(12,660)	(95.71)
One-to-four family	1,967	585	1,382	236.24
Other loans	831	2,719	(1,888)	(69.44)
Total non-covered loans 30-89 days past due	\$ 3,653	\$ 17,789	\$ (14,136)	(79.46)%

(1) Includes \$534,000 and \$2.7 million of taxi medallion-related loans at September 30, 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 \$1.2 million provision for such losses in the current third quarter, as compared to \$4.7 million and \$44.6 million, respectively, in the trailing and year-earlier three months. Reflecting the third-quarter provision, and the aforementioned net charge-offs, the allowance for losses on loans was \$159.7 million at September 30, 2018. This represented 0.40% of total loans and 295.26% of non-performing loans at that date.

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

At September 30, 2018, our three largest non-performing loans were a C&I loan with a balance of \$5.7 million, a multi-family loan with a balance of \$4.4 million, and a CRE loan with a balance of \$1.3 million.

**Table of Contents***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 September 30, 2018, non-accrual TDRs included taxi medallion-related loans with a combined balance of \$23.7 million.

At September 30, 2018, loans on which concessions were made with respect to rate reductions and/or extensions of maturity dates totaled \$38.7 million; loans in connection with which forbearance agreements were reached totaled \$1.4 million at that date.

Based on the number of loans performing in accordance with their revised terms, our success rates for restructured multi-family loans, and ADC loans were 100%. The success rates for restructured one-to-four family and other loans were 75% and 90%, respectively, at September 30, 2018.

**Analysis of Troubled Debt Restructurings**

The following table sets forth the changes in our TDRs over the nine months ended September 30, 2018:

(in thousands)	Accruing	Non-Accrual	Total
Balance at December 31, 2017	\$ 9,653	\$35,903	\$45,556
New TDRs	900	6,914	7,814
Charge-offs	--	(2,308)	(2,308)
Loan payoffs, including dispositions and principal pay-downs	(189)	(10,760)	(10,949)
Balance at September 30, 2018	\$10,364	\$29,749	\$40,113

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 September 30, 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 September 30, 2018 and December 31, 2017.

(dollars in thousands)	<b>At or For the Nine Months Ended September 30, 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	15,486	60,943
Recovery from allowance on PCI loans	--	1,766
<b>Charge-offs:</b>		
Multi-family	(34)	(279)
Commercial real estate	(3,191)	--
One-to-four family residential	--	(96)
Acquisition, development, and construction	(2,220)	--
Other loans	(9,705)	(62,975)
<b>Total charge-offs</b>	<b>(15,150)</b>	<b>(63,350)</b>
<b>Recoveries:</b>		
Multi-family	--	28
Commercial real estate	137	408
One-to-four family residential	--	--
Acquisition, development, and construction	105	169
Other loans	1,031	1,558
<b>Total recoveries</b>	<b>1,273</b>	<b>2,163</b>
<b>Net charge-offs</b>	<b>(13,877)</b>	<b>(61,187)</b>
<b>Balance at end of period</b>	<b>\$159,655</b>	<b>\$158,046</b>
<b>Non-Performing Assets:</b>		
<b>Non-accrual mortgage loans:</b>		
Multi-family	\$5,236	\$11,078
Commercial real estate	4,547	6,659
One-to-four family residential	1,665	1,966
Acquisition, development, and construction	--	6,200
<b>Total non-accrual mortgage loans</b>	<b>11,448</b>	<b>25,903</b>
<b>Other non-accrual loans</b>	<b>42,624</b>	<b>47,779</b>
<b>Total non-performing loans</b>	<b>\$54,072</b>	<b>\$73,682</b>
Repossessed assets <sup>(1)</sup>	13,765	16,400

Total non-performing assets	\$67,837	\$90,082
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**Asset Quality Measures:**

Non-performing loans to total loans	0.14 %	0.19 %
Non-performing assets to total assets	0.13	0.18
Allowance for loan losses to non-performing loans	295.26	214.50
Allowance for loan losses to total loans	0.40	0.41
Net charge-offs during the period to average loans outstanding during the period	0.04	0.16

**Loans 30-89 Days Past Due:**

Multi-family	\$ 288	\$ 1,258
Commercial real estate	567	13,227
One-to-four family residential	1,967	585
Other loans	831	2,719
Total loans 30-89 days past due <sup>(2)</sup>	\$ 3,653	\$ 17,789

(1) Includes \$8.6 million and \$8.2 million of repossessed taxi medallions at September 30, 2018 and December 31, 2017, respectively.

(2) Includes \$534,000 and \$2.7 million of taxi medallion loans at September 30, 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 September 30, 2018:

(in thousands)	
New York	\$ 46,738
New Jersey	5,793
Arizona	877
All other states	664
<b>Total non-performing loans</b>	<b>\$ 54,072</b>

**Securities**

Securities increased \$1.3 billion from December 31, 2017 and \$641.4 million from June 30, 2018 to \$4.8 billion or 9.4% of total assets at September 30, 2018. During the second quarter of 2017, we reclassified our entire securities portfolio as Available-for-Sale. Accordingly, at September 30, 2018, June 30, 2018, and December 31, 2017, we had no securities designated as Held-to-Maturity. At September 30, 2018, 23.5% of the securities portfolio was variable rates, mainly short term LIBOR.

**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 September 30, 2018 and December 31, 2017, the Community Bank held FHLB-NY stock in the amount of \$651.2 million and \$588.7 million, respectively, and the Commercial Bank held FHLB-NY stock of \$3.7 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 \$29.0 million and \$22.8 million, respectively, in the nine months ended September 30, 2018 and 2017; dividends from the FHLB-NY to the Commercial Bank totaled \$517,000 and \$701,000, 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 rose \$8.7 million to \$975.8 million in the nine months ended September 30, 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 September 30, 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 \$4.3 billion in the nine months ended September 30, 2018, down from the \$9.3 billion recorded in the year-earlier nine months. Cash flows from the repayment and sales of securities totaled \$725.3 million and \$1.3 billion, respectively, in the corresponding periods, while purchases of securities totaled \$2.1 billion and \$404.0 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

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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 September 30, 2018, total deposits of \$30.3 billion were up \$1.2 billion as compared to the level recorded at December 31, 2017. CDs represented 37.6% of total deposits at the end of the third quarter, and total deposits represented 59.2% of total assets at that date.

Included in the September 30th balance of deposits were institutional deposits of \$2.0 billion and municipal deposits of \$799.1 million, as compared to \$2.2 billion and \$999.4 million, respectively, at December 31, 2017. Brokered deposits dropped \$7.0 million during this timeframe, to \$4.0 billion, reflecting an \$833.4 million decrease in brokered money market accounts to \$1.8 billion and a \$767.6 million increase in brokered CDs to \$1.3 billion. In addition, at September 30, 2018, we had \$852.4 million of brokered interest bearing checking accounts, an increase of \$58.7 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 September 30, 2018, the balance of borrowed funds increased \$926.7 million from year-end 2017 to \$13.8 billion, representing 27.0% of total assets, at that date. The majority of the increase was related to a higher balance of wholesale borrowings.

### ***Wholesale Borrowings***

Wholesale borrowings rose \$926.5 billion from year-end 2017 amount to \$13.4 billion, representing 26.3% of total assets, at quarter end.

FHLB-NY advances rose \$1.2 billion since December 31, 2017, to \$13.3 billion, while the balance of repurchase agreements were \$200 million at September 30, 2018 and \$450.0 million at December 31, 2017.

### ***Junior Subordinated Debentures***

Junior subordinated debentures totaled \$359.4 million at the end of the current third quarter, comparable to the balance at December 31st.

## **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

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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 nine 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; (2) We continued the origination of certain C&I loans that feature floating interest rates; (3) We purchased short-duration, variable rate investment securities; (4) We initiated a deposit-raising campaign focused mainly on term CDs; and (5) We continued to extend borrowings as they mature.

### ***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.

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 September 30, 2018, our one-year gap was a negative 22.34%, comparable to a negative 19.57% at December 31, 2017.

The table on the following page sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at September 30, 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 September 30, 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 10% per annum; for multi-family and CRE loans, prepayment rates are forecasted at weighted average CPRs of 10% and 7% 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

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assumed to decay at a rate of 72% for the first five years and 28% 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 86% for the first five years and 14% for years six through ten.

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	At September 30, 2018						
	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	
<b>INTEREST-EARNING ASSETS:</b>							
and other loans <sup>(1)</sup>	\$ 3,343,474	\$ 3,630,145	\$ 16,262,207	\$ 12,906,277	\$ 3,557,493	\$ 84,604	\$ 3,343,474
related securities <sup>(2)(3)</sup>	84,756	101,302	529,508	1,071,348	538,386	455,596	84,756
securities <sup>(2)</sup>	1,625,011	18,319	35,956	29,003	801,171	160,590	1,625,011
earning cash and cash equivalents	1,580,712	--	--	--	--	--	1,580,712
Interest-earning assets	6,633,953	3,749,766	16,827,671	14,006,628	4,897,050	700,790	6,633,953
<b>INTEREST-BEARING LIABILITIES:</b>							
Checking and savings accounts	6,374,974	315,881	621,790	1,754,080	2,492,961	--	6,374,974
Time deposits	806,850	979,320	234,383	192,103	2,614,189	--	806,850
Other deposits	1,454,841	7,323,469	2,600,160	30,311	1,193	--	1,454,841
Other interest-bearing liabilities	1,613,926	2,962,000	8,894,000	225,000	--	145,496	1,613,926
Interest-bearing liabilities	10,250,591	11,580,670	12,350,333	2,201,494	5,108,343	145,496	10,250,591
Interest rate sensitivity gap per period	\$ (3,616,638)	\$ (7,830,904)	\$ 4,477,338	\$ 11,805,134	\$ (211,293)	\$ 555,294	\$ (3,616,638)
Interest rate sensitivity gap	\$ (3,616,638)	\$ (11,447,542)	\$ (6,970,204)	\$ 4,834,930	\$ 4,623,637	\$ 5,178,931	\$ (3,616,638)
Interest rate sensitivity gap as a percentage of interest-earning assets	(7.06)%	(22.34)%	(13.60)%	9.43%	9.02%	10.11%	(7.06)%
Interest rate sensitivity gap as a percentage of interest-bearing liabilities	64.72%	47.56%	79.61%	113.29%	111.14%	112.44%	64.72%

(1) For the purpose of the gap analysis, non-performing 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 September 30, 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 10.67% 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 1.84% 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 September 30, 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	(6.74)%
+200	(13.29)%

(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 September 30, 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 Future Net Interest Income</b>
<b>(in basis points)<sup>(1)(2)</sup></b>	
+100	(3.99)%
+200	(7.43)%

(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 September 30, 2018, our analysis indicated that an immediate inversion of the yield curve would be expected to result in a 2.13% decrease in net interest income; conversely, an immediate steepening of the yield curve would be expected to result in a 3.66% 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 \$1.7 billion and \$2.5 billion, respectively, at September 30, 2018 and December 31, 2017. As in the past, our portfolios of loans and securities provided liquidity in the first nine months of the year, with cash flows from the repayment and sale of loans totaling \$4.3 billion and cash flows from the repayment and sale of securities totaling \$725.3 million.

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 September 30, 2018, our available borrowing capacity with the FHLB-NY was \$7.2 billion. In addition, the Banks had \$4.8 billion of available-for-sale securities, combined, at that date.

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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 September 30, 2018, the maximum amount the Community Bank could borrow from the FRB-NY was \$1.3 billion; the maximum amount the Commercial Bank could borrow from the FRB-NY was \$68.3 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 nine months of 2018, the volume of loans originated for investment was \$7.9 billion. During this time, the net cash used in investing activities totaled \$2.9 billion. Our operating activities provided net cash of \$219.9 million, while the net cash provided by our financing activities totaled \$1.9 billion.

CDs due to mature in one year or less from September 30, 2018 totaled \$8.8 billion, representing 76.9% 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 nine months ended September 30, 2018, the Banks paid dividends totaling \$285.0 million to the Parent Company, leaving \$444.7 million they could dividend to the Parent Company without regulatory approval at that date. Additional sources of liquidity available to the Parent Company at September 30, 2018 included \$88.5 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.

On October 24, 2018, the Company announced that it had received regulatory approval to repurchase its common stock. Accordingly, the Board of Directors approved a \$300 million common share repurchase program. The repurchase program will be funded through the issuance of a like amount of subordinated notes. Purchases will be made from time to time in open market transactions, subject to market conditions.

Common stockholders' equity represented 12.28%, 12.46%, and 12.91%, respectively, of total assets at September 30, 2018, June 30, 2018, and September 30, 2017, and was equivalent to a book value per common share of \$12.83, \$12.82, and \$12.79 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 September 30, 2018, June 30, 2018, and September 30, 2017, we had outstanding common shares of 490,341,864, 490,379,705, and 489,061,848, respectively.

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Tangible common stockholders' equity was relatively stable at \$3.9 billion, representing 7.90% of tangible assets and a tangible book value per common share of \$7.86 at September 30, 2018. At June 30, 2018, tangible common stockholders' equity totaled \$3.9 billion or 8.02% of tangible assets and a tangible book value per common share of \$7.85. At September 30, 2017, tangible common stockholders' equity totaled \$3.8 billion, representing 8.30% of tangible assets, and a tangible book value per common share of \$7.81.

We calculate tangible common stockholders' equity by subtracting the amount of goodwill recorded at the end of a period from the amount of common stockholders' equity recorded at the same date. At September 30, 2018, December 31, 2017, and September 30, 2017, we recorded goodwill of \$2.4 billion, 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 \$75.9 million from the balance at the end of last year and increased \$86.7 million from the year-ago quarter to \$91.1 million at September 30, 2018. The year-to-date increase was primarily the result of a \$69.0 million decrease in the net unrealized gain on available-for-sale securities, net of tax, to \$29.9 million and a \$6.0 million increase in net unrealized loss on pension and post-retirement obligations, net of tax, to \$55.2 million.

At September 30, 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 September 30, 2018 (dollars in thousands)	Risk-Based Capital							
	Common Equity Tier 1		Tier 1		Total		Leverage Capital	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$ 3,949,027	11.07%	\$ 4,451,867	12.48%	\$ 4,958,635	13.90%	\$ 4,451,867	9.26%
Minimum for capital adequacy purposes	1,605,580	4.50	2,140,773	6.00	2,854,365	8.00	1,923,154	4.00
Excess	\$ 2,343,447	6.57%	\$ 2,311,094	6.48%	\$ 2,104,270	5.90%	\$ 2,528,713	5.26%

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 September 30, 2018, our total risk-based capital ratio exceeded the minimum requirement for capital adequacy purposes by 590 bp and the fully-phased in capital conservation buffer by 340 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 September 30, 2018:

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

At September 30, 2018 (dollars in thousands)	Risk-Based Capital							
	Common Equity Tier 1		Tier 1		Total		Leverage Capital	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$ 4,317,809	13.06%	\$ 4,317,809	13.06%	\$ 4,452,682	13.46%	\$ 4,317,809	9.61%
Minimum for capital adequacy purposes	1,488,286	4.50	1,984,381	6.00	2,645,842	8.00	1,797,656	4.00
Excess	\$ 2,829,523	8.56%	\$ 2,333,428	7.06%	\$ 1,806,840	5.46%	\$ 2,520,153	5.61%

### Regulatory Capital Analysis (New York Commercial Bank)

At September 30, 2018 (dollars in thousands)	Risk-Based Capital							
	Common Equity Tier 1		Tier 1		Total		Leverage Capital	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$ 388,983	14.89%	\$ 388,983	14.89%	\$ 414,231	15.86%	\$ 388,983	12.34%
Minimum for capital adequacy purposes	117,561	4.50	156,748	6.00	208,998	8.00	126,104	4.00
Excess	\$ 271,422	10.39%	\$ 232,235	8.89%	\$ 205,233	7.86%	\$ 262,879	8.34%

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As of September 30, 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%.

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**Earnings Summary for the Three Months Ended September 30, 2018**

For the three months ended September 30, 2018, the Company reported net income of \$106.8 million, down 0.5% from the \$107.4 million reported for the three months ended June 30, 2018, and down 3% from the \$110.5 million reported for the three months ended September 30, 2017. Net income available to common shareholders was \$98.6 million for the current third quarter period, down 0.6% from the trailing three months and down 4% from the prior year. Diluted EPS for the three months ended September 30, 2018 were \$0.20 compared to \$0.20 for the three months ended June 30, 2018 and \$0.21 for the three months ended September 30, 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 \$249.5 million in the current third quarter, down \$14.4 million from the trailing-quarter level and \$26.8 million from the year-earlier amount.

***Linked-Quarter Comparison***

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

Interest income of \$425.1 million in the current third quarter increased \$7.8 million from the amount reported in the trailing quarter. Interest income from loans of \$368.3 million was flat compared to the prior quarter, while interest income from securities and money market investments increased by \$8.0 million to \$56.9 million.

Interest income was driven by a \$1.0 billion increase in average earning assets to \$46.3 billion combined with a two-bp decrease on the average yield to 3.67%. The increase was primarily due to higher average loan balances along with a modestly lower loan yield. The decrease in the average loan yield was a function of higher rates on new loan originations offset by a decline in higher prepayment income. Prepayment income contributed eight bps to the average loan yield, down nine bps.

Interest income from securities increased \$11.1 million due an increase in the average balance offset by a six bp decline in the average yield.

Interest expense rose \$22.3 million sequentially to \$175.6 million, primarily due to an \$11.7 million increase in interest expense on CDs and a \$5.7 million increase in borrowed funds. In addition, the cost of funds increased 16 bps during the current third quarter to 1.70%. The cost of total interest-bearing deposits increased 20 bps on a sequential basis to 1.50%, led by a 24 bp increase in the cost of CDs, while the cost of borrowed funds rose six bps.

### ***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 2.16%, the margin was 17 bps narrower than the trailing-quarter measure and 37-bp narrower than the margin recorded in the third quarter of last year.

The following table summarizes the contribution of loan and securities prepayment income on the Company's interest income and net interest margin in the three months ended September 30, 2018, June 30, 2018, and September 30, 2017:

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(dollars in thousands)	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>September 30, 2017</b>
<b>Total Interest Income</b>	\$425,144	\$417,332	\$393,675
<b>Prepayment Income:</b>			
Loans	\$8,288	\$15,781	\$14,076
Securities	1,037	634	2,488
<b>Total prepayment income</b>	<b>\$9,325</b>	<b>\$16,415</b>	<b>\$16,564</b>
<b>GAAP Net interest Margin</b>	2.16%	2.33%	2.53%
<b>Less:</b>			
Prepayment income from loans	7 bps	14 bps	13 bps
Prepayment income from securities	1	--	3
<b>Total prepayment income contribution to net interest margin</b>	<b>8 bps</b>	<b>14 bps</b>	<b>16 bps</b>
<b>Adjusted Net Interest Margin (non-GAAP) <sup>(1)</sup></b>	<b>2.08%</b>	<b>2.19%</b>	<b>2.37%</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.



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	September 30, 2018			For the Three Months Ended June 30, 2018			September 30, 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>	\$39,465,876	\$368,264	3.73%	\$38,937,521	\$368,456	3.79%	\$37,791,476	\$350,990	3.71%
Securities <sup>(2)(3)</sup>	5,279,319	49,084	3.71	4,029,967	37,962	3.77	3,597,699	34,359	3.81
Interest-earning cash and cash equivalents									
	1,557,465	7,796	1.99	2,288,581	10,914	1.91	2,474,307	8,326	1.34
Total interest-earning assets									
	46,302,660	425,144	3.67	45,256,069	417,332	3.69	43,863,482	393,675	3.59
Non-interest-earning assets									
	4,305,623			4,311,317			4,662,777		
Total assets									
	\$50,608,283			\$49,567,386			\$48,526,259		
<b>Liabilities and Stockholders Equity:</b>									
Interest-bearing deposits:									
Interest-bearing checking and money market accounts									
	\$11,732,410	\$44,497	1.50%	\$12,185,478	\$40,380	1.33%	\$12,672,720	\$27,620	0.86%
Savings accounts									
	4,872,126	7,325	0.60	4,935,936	6,630	0.54	5,006,499	7,109	0.56
Certificates of deposit									
	10,740,927	51,249	1.89	9,631,672	39,534	1.65	8,533,404	27,649	1.29
Total interest-bearing deposits									
	27,345,463	103,071	1.50	26,753,086	86,544	1.30	26,212,623	62,378	0.94
Borrowed funds									
	13,704,208	72,567	2.10	13,126,137	66,833	2.04	12,397,681	54,954	1.76
Total interest-bearing liabilities									
	41,049,671	175,638	1.70	39,879,223	153,377	1.54	38,610,304	117,332	1.21
	2,488,674			2,675,223			2,766,701		

Non-interest-bearing deposits						
Other liabilities	265,573		223,774		383,622	
Total liabilities	43,803,918		42,778,220		41,760,627	
Stockholders equity	6,804,365		6,789,166		6,765,632	
Total liabilities and stockholders equity						
	\$50,608,283		\$49,567,386		\$48,526,259	
Net interest income/interest rate spread						
	\$249,506	1.97%	\$263,955	2.15%	\$276,343	2.38%
Net interest margin						
		2.16%		2.33%		2.53%
Ratio of interest-earning assets to interest-bearing liabilities						
		1.13x		1.13x		1.14x

(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) Includes FHLB stock.

**Table of Contents****Provision for Losses on Loans**

The provision for losses on 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 \$1.2 million provision for loan losses in the current third quarter, as compared to \$4.7 million and \$44.6 million in the three months ended June 30, 2018 and September 30, 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 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 investment advisory fees.

Non-interest income totaled \$22.9 million in the current third quarter, relatively unchanged from the trailing-quarter level and down \$86.0 million from the year-earlier amount. The year-over-year decrease was impacted by a couple of items, including the sale of our mortgage banking operations during the third quarter of last year and the sale of our covered loan portfolio.

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>		
	September 30, 2018	June 30, 2018	September 30, 2017
Fee income	\$7,237	\$7,492	\$ 7,972
BOLI income	7,302	6,318	8,314
Mortgage banking income	--	--	1,486
Net loss on securities	(41)	(303)	--
Gain on sale of covered loans and mortgage banking operations	--	--	82,026
Other income:			
Investment advisory income	5,322	5,163	5,502
Third-party investment product sales	2,893	3,515	2,888
Other	209	521	740
Total other income	8,424	9,199	9,130
Total non-interest income	\$22,922	\$22,706	\$108,928

**Non-Interest Expense**

Non-interest expense consists of compensation and benefits expense, occupancy and equipment expense, and G&A expense.

Non-interest expense totaled \$134.4 million in the current third quarter, a \$3.7 million decrease from the trailing-quarter level and a \$27.8 million decrease from the year-earlier amount.

The linked-quarter improvement was primarily the result of lower compensation and benefits expense, G&A expense, and lower occupancy and equipment expense.

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.

### **Income Tax Expense**

Income tax expense totaled \$30.0 million in the current third quarter, \$6.4 million lower than the trailing-quarter level and \$38.0 million lower than the year-earlier third-quarter amount.

The Company recorded an effective tax rate of 21.95% during the current third quarter compared to 25.35% in the trailing quarter.

**Table of Contents****Earnings Summary for the Nine Months Ended September 30, 2018**

In the first nine months of 2018, we generated net income available to common shareholders of \$296.1 million or \$0.60 per diluted common share as compared to net income available to common shareholders of \$313.3 million, or \$0.64 per diluted common share, in the first nine months of 2017.

**Net Interest Income**

Net interest income fell \$75.3 million year-over-year to \$783.8 million in the nine months ended September 30, 2018. The decrease was due to the net effect of a \$54.9 million increase in interest income to \$1.2 billion offset by a \$130.2 million increase in interest expense to \$463.0 million. During this time, our net interest margin fell 33 basis points to 2.30%.

The following factors contributed to the year-over-year increase in net interest income and margin:

Average interest-earning assets rose \$1.8 billion year-over-year to \$45.4 billion, due to a \$250.3 million increase in average loans to \$38.9 billion, a \$410.9 million increase in securities to \$4.5 billion, and a \$1.2 billion increase in interest-earning cash and cash equivalents to \$2.0 billion. The average yield on interest-earning assets rose two bps to 3.67% in the first nine months of this year. This was primarily due to a six bp increase in the loan yield to 3.75%, an eight bp increase in the yield on securities to 3.80%, and a 48 bp increase in the yield on interest-earning cash and cash equivalents to 1.82%.

Average interest-bearing liabilities rose \$989.1 million year-over-year to \$40.1 billion, reflecting a \$262.7 million increase in average borrowed funds to \$13.3 billion and a \$726.4 million increase in average interest-bearing deposits to \$26.9 billion. During this time, the average cost of funds rose 40 bp to 1.54%, as the average cost of borrowed funds rose 32 bp to 2.03%, and the average cost of interest-bearing deposits increased 45 bp to 1.30%.

The following table summarizes the contribution of loan and securities prepayment income on the Company's interest income and NIM in the nine months ended September 30, 2018 and 2017:

(dollars in thousands)	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Total Interest Income</b>	\$1,246,801	\$1,191,869
<b>Prepayment Income:</b>		
Loans	\$35,848	\$36,926
Securities	4,604	6,744
<b>Total prepayment income</b>	<b>\$40,452</b>	<b>\$43,670</b>
<b>GAAP Net Interest Margin</b>	<b>2.30%</b>	<b>2.63%</b>
<b>Less:</b>		
Prepayment income from loans	11 bps	11 bps

Prepayment income from securities	1	2
Total prepayment income contribution to net interest margin	12 bps	13 bps
<b>Adjusted Net Interest Margin (non-GAAP) <sup>(1)</sup></b>	2.18%	2.50%

(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:

1. 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.
2. Adjusted net interest margin is among the measures considered by current and prospective investors, both independent of, and in comparison with, our peers.

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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 six-month periods 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 six-month periods 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.

**Net Interest Income Analysis**

(dollars in thousands)	<b>For the Nine Months Ended September 30,</b>					
	<b>2018</b>			<b>2017</b>		
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/ Cost</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/ Cost</b>
<b>Assets:</b>						
Interest-earning assets:						
Mortgage and other loans, net <sup>(1)</sup>	\$38,902,370	\$1,092,637	3.75%	\$38,652,113	\$1,070,722	3.69%
Securities <sup>(2)(3)</sup>	4,463,058	127,038	3.80	4,052,154	112,800	3.72
Interest-earning cash and cash equivalents	1,991,558	27,126	1.82	832,463	8,347	1.34
Total interest-earning assets	45,356,986	1,246,801	3.67	43,536,730	1,191,869	3.65
Non-interest-earning assets	4,328,731			5,239,745		
Total assets	\$49,685,717			\$48,776,475		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing deposits:						
Interest-bearing checking and money market accounts	\$12,178,512	\$119,246	1.31%	\$12,950,570	\$71,413	0.74%
Savings accounts	4,956,358	21,176	0.57	5,171,645	21,069	0.54
Certificates of deposit	9,732,912	121,298	1.67	8,019,142	73,786	1.23
Total interest-bearing deposits	26,867,782	261,720	1.30	26,141,357	166,268	0.85
Borrowed funds	13,255,400	201,322	2.03	12,992,691	166,572	1.71
Total interest-bearing liabilities	40,123,182	463,042	1.54	39,134,048	332,840	1.14
Non-interest-bearing deposits	2,522,784			2,820,923		
Other liabilities	245,000			269,132		

Total liabilities	42,890,966		42,224,103	
Stockholders equity	6,794,751		6,552,372	
Total liabilities and stockholders equity	\$49,685,717		\$48,776,475	
Net interest income/interest rate spread		\$783,759	2.13%	\$859,029 2.51%
Net interest margin			2.30%	2.63%
Ratio of interest-earning assets to interest-bearing liabilities			1.13x	1.11x

(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) Includes FHLB stock.

#### **Provision for / Recovery of Loan Losses**

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

Reflecting the methodology used by management to calculate the allowance for loan losses, we recorded a provision for losses on loans of \$15.5 million in the nine months ended September 30, 2018 compared to \$58.0 million in the year-ago nine months. For the nine months ended September 30, 2018, the Company recorded net charge-offs of \$13.9 million, of which \$9.7 million was related to taxi medallion loans. For the nine months ended September 30, 2017, the Company recorded net charge-offs of \$57.4 million, with charge-offs related to taxi medallion loans of \$54.8 million.

##### ***Recovery of Losses on Covered Loans***

In the first nine months of 2017, we recovered \$23.7 million from the allowance for covered loan losses, reflecting an increase in expected cash flows from certain pools of covered loans as their credit quality improved and the aforementioned sale of the covered loans. In connection with this recovery, we recorded FDIC indemnification expense of \$19.0 million in Non-interest income during the corresponding period.



**Table of Contents****Non-Interest Income**

In the first nine months of 2018, we recorded non-interest income of \$68.5 million, as compared to \$191.5 million in the first nine months of 2017. The \$123.1 million decrease was driven by a number of factors: a \$29.7 million decrease in the net gain on sales of securities; a \$19.4 million decrease in mortgage banking income; and a \$8.1 million increase in other income. In addition, the nine months ended September 30, 2017 included an \$82.0 million gain on the sale of covered loans and our mortgage banking operations.

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

**Non-Interest Income Analysis**

(in thousands)	<b>For the Nine Months Ended September 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Fee income	\$ 22,056	\$ 23,983
BOLI income	20,424	21,170
Mortgage banking income	--	19,446
Net (loss) gain on securities	(810)	28,915
FDIC indemnification expense	--	(18,961)
Gain on sale of covered loans and mortgage banking operations	--	82,026
Other income:		
Investment advisory income	15,685	16,512
Third-party investment product sales	9,484	9,262
Other	<u>1,646</u>	<u>9,184</u>
Total other income	<u>26,815</u>	<u>34,958</u>
Total non-interest income	<u>\$ 68,485</u>	<u>\$ 191,537</u>

**Non-Interest Expense**

In the first nine months of 2018, we recorded non-interest expense of \$411.7 million, reflecting a \$81.3 million decrease from the year-earlier amount. The decline is attributable to the sale of our mortgage banking business in the third quarter of last year and cost reduction efforts throughout the Company.

The decline in operating expenses was largely due to a \$39.4 million decrease in compensation and benefits expense to \$242.6 million and a \$42.4 million decrease in G&A expense to \$94.8 million.

**Income Tax Expense**

Income tax expense fell \$89.2 million year-over-year to \$104.4 million in the nine months ended September 30, 2018 largely due tax reform legislation that was passed in December 2017. During this time, pre-tax income declined \$98.2 million to \$425.1 million, while the effective tax rate improved to 24.56%, as compared to 37.00% for the first nine months of 2017.

**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

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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 September 30, 2018, the Company allocated \$420,000 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>Third Quarter 2018</b>	<b>Total Shares of Common Stock Repurchased</b>	<b>Average Price Paid per Common Share</b>	<b>Total Allocation</b>
July 1 – July 31	18,899	\$11.41	\$216
August 1 – August 31	13,665	10.74	147
September 1 – September 30	<u>5,277</u>	10.84	<u>57</u>
Total shares repurchased	<u>37,841</u>	11.09	<u>\$420</u>

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

On October 30, 2018, following our receipt of regulatory approval to repurchase additional shares of our common stock, the Board of Directors approved a \$300 million common share repurchase program. The October 30th authorization extends and adds to a previous authorization by the Board, made on April 20, 2004, for the repurchase of up to five million shares of the Company's common stock. Under the previous authorization, 1,659,816 shares were

still available for repurchase at September 30, 2018. No shares were repurchased under the April 20, 2004 authorization between August 2006 and September 30, 2018 and going forward share repurchases will occur under the combined authority granted pursuant to the 2004 and 2018 Board approvals. Under such authorization, shares may be repurchased on the open market or in privately negotiated transactions, subject to market conditions.

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 September 30, 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.
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- (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 by reference to Exhibits of the Company'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) 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) 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: November 8, 2018

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

President, Chief Executive Officer,  
and Director

DATE: November 8, 2018

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

Senior Executive Vice President  
and Chief Financial Officer