NORTHEAST COMMUNITY BANCORP INC
Form 10-K
March 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

OR

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

Commission File Number: **0-51852**

NORTHEAST COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

UNITED STATES

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

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

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

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

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

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

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

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 x No o

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2014 was approximately $32.0 million.

The number of shares outstanding of the registrant's common stock as of March 6, 2015 was 12,279,302.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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

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

PART I

Item 1. BUSINESS

General

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

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

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

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

We operate as a community-oriented financial institution offering traditional financial services to consumers and businesses in our market area and our lending territory. We attract deposits from the general public and use those funds to originate multi-family residential and mixed-use real estate and non-residential loans, which we hold for investment. We have been originating multi-family, mixed-use and non-residential real estate loans for over 80 years. In 2007, we established a new commercial and industrial loan department and have increased this portfolio from no commercial and industrial loans at March 31, 2007 to $61.2 million in commercial and industrial lines of credit committed with $26.6 million drawn and $7.8 million in commercial and industrial term loans at December 31, 2014. In 2012, we began originating construction loans, primarily in the Massachusetts market, that were secured by the construction of multi-family or single family properties. More recently, we expanded our construction lending to Orange and Rockland Counties, New York, secured by the construction of multi-family and residential condominium projects located in New York State. We also expanded our construction lending in New York State, secured by the construction/renovation of mixed-use and multi-family projects located in New York City.

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We originate non-owner occupied one- to four-family residential mortgage loans as investment vehicles as an accommodation to develop and/or maintain relationships with our deposit and certain of our multi-family, mixed-use, non-residential, and commercial and industrial loan customers. We offer investment advisory and financial planning services under the name Hayden Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

Available Information

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

Market Area

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

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

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

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

Competition

We face significant competition for the attraction of deposits. The New York and Boston metropolitan areas have a significant concentration of financial institutions, including large money center and regional banks, community banks and credit unions. Over the past 10 years, consolidation of the banking industry in the New York and Boston metropolitan areas has continued, resulting in larger and increasingly efficient competitors. We also face competition for depositors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2014, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held less than 1.00% of the deposits in each of the counties in New York and Massachusetts in which our offices are located.

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

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

Lending Activities

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

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

Multi-family and Mixed-use Real Estate Loans**.** We offer adjustable rate mortgage loans secured by multi-family and mixed-use real estate. These loans are comprised primarily of loans on moderate income apartment buildings located in our lending territory and include, loans on cooperative apartment buildings (in the New York area), and loans for Section 8 multi-family housing. In New York, most of the apartment buildings that we lend on are rent-stabilized. Mixed-use real estate loans are secured by properties that are intended for both residential and business use. We opened our first loan production office (Wellesley, Massachusetts) outside of New York in January 2004 and began at that time to originate multi-family and mixed-use real estate loans in several northeastern states and continue to do so.

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

conditions of their contractual obligations can apply to refinance their existing loans to the rates and terms then offered on new loans after the payment of their contractual prepayment penalties. These refinances are not considered troubled debt restructures.

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

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

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

The majority of the multi-family real estate loans in our portfolio are secured by twenty unit to one hundred unit apartment buildings. At December 31, 2014, the majority of our mixed-use real estate loans are secured by properties that are at least 75% residential, but contain some non-residential space.

On December 31, 2014, the largest outstanding multi-family real estate loan had a balance of $8.6 million and was performing according to its terms at December 31, 2014. This loan is secured by a 216 unit apartment complex located in Philadelphia, Pennsylvania. The largest mixed-use real estate loan had a balance of $2.6 million and was performing according to its terms at December 31, 2014. This loan is secured by a mixed-use building with 78 apartment units and one commercial unit located in Waterbury, Connecticut. As of December 31, 2014, the average loan balance in our multi-family and mixed-use portfolio was approximately $665,000.

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

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

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

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

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

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At December 31, 2014, we had $82.6 million in non-residential real estate loans outstanding, or 19.4% of total loans. At December 31, 2014, the largest outstanding non-residential real estate loan had an outstanding balance of $6.0 million. This loan is secured by an office building located in New Rochelle, New York and was performing according to its terms at December 31, 2014. At December 31, 2014, the largest outstanding non-residential real estate loan relationship with one borrower was comprised of five loans totaling $6.5 million secured by five office buildings located in the Syracuse, New York area. These five loans were performing according to their terms at December 31, 2014. As of December 31, 2014, the average balance of loans in our non-residential loan portfolio was $861,000.

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

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

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

***Commercial and Industrial Loans*.** Continuing our plan to diversify our portfolio, both geographically and by product type, we established a commercial and industrial lending department in March 2007. Interest rates and payments on our commercial and industrial loans are typically indexed to the prime rate as published in the *Wall Street Journal* and adjusted as the prime rate changes. Our commercial and industrial loan portfolio increased from $35.9 million in commercial and industrial lines of credit committed with $18.0 million drawn and $5.7 million in commercial and industrial term loans at December 31, 2011 to $61.2 million in commercial and industrial lines of credit committed with $26.6 million drawn and $7.8 million in commercial and industrial term loans at December 31, 2014. At December 31, 2014, the average balance of loans in our commercial and industrial loan portfolio was $370,000.

At December 31, 2014, the largest commercial and industrial line of credit was a line of credit totaling $9.0 million, with no outstanding balance. This loan is secured by the assets of a construction business.

At December 31, 2014, the largest outstanding commercial and industrial loan and the largest outstanding commercial and industrial line of credit relationship with one borrower was comprised of two lines of credit totaling $8.5 million, with outstanding balances totaling $4.3 million and remaining available lines of credit totaling $4.2 million. One of the lines of credit totaling $5.5 million, with a $4.3 million outstanding balance and a remaining available line of $1.2 million, is the Company's largest outstanding commercial and industrial line of credit. The two lines of credit serve as a warehousing line of credit for an originator of Small Business Administration guaranteed loans located in New York City and are secured by these Small Business Administration loans.

All the aforementioned commercial and industrial loans were performing according to their terms at December 31, 2014.

Construction Loans. Construction loans are typically for twelve to twenty-four month terms, pay interest only during that period, and are indexed to the prime rate plus a margin. All construction loans are underwritten on an as completed basis and must meet our normal debt service and loan to value ratio requirements. In addition, if construction loans are for condominiums, the project will be evaluated as if they will be rental properties.

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We generally require the borrower to contribute a minimum of 50% of the total raw land acquisition cost. If an existing structure is to be demolished, the loan to value will be limited to 70% of the improved land value. To ensure sufficient construction funds are available for a project, we may elect to finance up to 100% of the construction costs, which includes a 10% contingency, in an amount not to exceed 75% of the "as complete" appraised value. We also require the borrower to submit various construction documentations, including but not necessarily limited to cost estimates, property surveys, approved building plans and specifications, and approved building permits. As a project progresses and the borrower requests funds to continue the project, we require an engineer consultant to inspect the project to verify that the work has been completed prior to disbursing the funds sought.

At December 31, 2014, we had three construction loan participations that we purchased in August 2007 that subsequently converted into permanent loans in 2012 with an aggregate outstanding balance of $6.1 million at December 31, 2014. This balance represents our 25% participation ownership in the loans, which are secured by a hotel. As of December 31, 2014, these loans were current and performing in accordance with their modified terms.

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

Construction loans in Orange and Rockland Counties of New York consist primarily of loans to construct small contemporary townhouse-style condominium buildings containing six units and small rental buildings containing six to 40 units built by local builders/community leaders.

Construction loans in New York City consist primarily of loans for renovation and/or gut rehabilitation of small mixed-use and multi-family properties containing six to 20 units for purposes of re-marketing the properties to higher rental income.

At December 31, 2014, our construction loan portfolio consisted of 69 loans totaling $46.6 million, net of loans in process of $41.5 million and are comprised of five Massachusetts construction loans with an aggregate balance of $1.6 million, net of loans in process of $968,000, and 64 New York construction loans with an aggregate balance of $45.0 million, net of loans in process of $40.5 million. All 69 construction loans were performing according to their terms at December 31, 2014. The average balance of loans in our construction loan portfolio was $675,000 at December 31, 2014.

Consumer Loans. We offer personal loans, loans secured by savings accounts or certificates of deposit (share loans), and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to

transfer funds from the statement savings account to the checking account when needed to cover overdrafts. At December 31, 2014, our portfolio of consumer loans was $142,000, or 0.03% of total loans.

Loan Underwriting Risks

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

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

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

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

Construction Loans. In past years, we had purchased participation interests in loans to finance the construction of multi-family, mixed-use and non-residential buildings. Due to market conditions, we discontinued purchasing participation interests in construction loans in 2009. In 2012, we entered the Massachusetts construction market by originating construction loans secured by single family residential, non-residential, and condominium buildings and continue to make such loans today. We also entered the New York construction market during the latter part of 2013 by originating construction loans secured by the construction or renovation/gut rehabilitation of mixed-use, multi-family and residential condominium properties located in New York State.

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

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

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

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

During 2014, we continued our policy of not purchasing participation interests in loans to finance the construction of multi-family, mixed-use and non-residential properties. The Company may be a participant in some of the Bank's construction loans from time to time. For the year ended December 31, 2014, the Company held participations in construction loans originated by the Bank for an aggregate balance of approximately $1.5 million.

Commercial and Industrial Loan Originations. We originate commercial and industrial loans from contacts made by our commercial loan officers in New York and Massachusetts. Our commercial and industrial lending department does not utilize the services of loan brokers.

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

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

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

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

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

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

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and municipal governments, deposits at the FHLB of New York and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in mutual funds. While we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at December 31, 2014.

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At December 31, 2014, our interest-bearing deposits, securities, and short-term investments totaled $39.1 million and consisted primarily of $18.0 million in interest earning deposits with Atlantic Community Bankers Bank (“ACBB”), $8.9 million in interest earning deposits with the FHLB of New York, $5.4 million in mortgage-backed securities issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $3.4 million in the Federal Reserve Bank of New York, $1.9 million in FHLB of New York common stock, $1.2 million in collateralized mortgage obligations issued primarily by Fannie Mae, Freddie Mac and Ginnie Mae, $150,000 in short-term certificates of deposits at other financial institutions, $82,000 at a financial institution, and $70,000 in ACBB common stock. At December 31, 2014, we had no investments in callable securities.

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

Deposit Activities and Other Sources of Funds

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

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

At December 31, 2013 and December 31, 2014, we had $980,000 and $986,000, respectively, in certificates of deposits that are fully-insured brokered deposits as defined in the FDIC call report instructions. These certificates of deposits were obtained from one of our retail depositors and then transferred into the Certificate of Deposit Account Registry Service (“CDARS”) Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Network as reciprocal deposits.

At December 31, 2013 and December 31, 2014, we had $9.7 million and $38.9 million, respectively, in certificate of deposits that we obtained through the posting of our certificate of deposits interest rates through a nationwide listing

service. These certificates of deposits were obtained from financial institutions throughout the country and are not considered brokered deposits.

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

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

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

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Mortgage Brokering Operations

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

Investment Advisory and Financial Planning Activities

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

Personnel

As of December 31, 2014, we had 94 full-time employees and two part-time employees, none of whom are represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

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

New England Commercial Properties LLC was formed in October 2007 to facilitate the purchase or lease of real property by the Bank and to hold real estate owned acquired by the Bank through foreclosure or deed-in-lieu of

foreclosure. As of December 31, 2014, New England Commercial Properties LLC had no assets other than title to a foreclosed multi-family property located in Newark, New Jersey, a foreclosed office building located in Lawrenceville, New Jersey, a foreclosed office building located in Pittsburgh, Pennsylvania, a foreclosed mixed-use property located in Peabody, Massachusetts, a foreclosed building housing auto repair and auto rental facilities located in Brockton, Massachusetts, and a foreclosed multi-family property located in Bristol, Connecticut. The multi-family property located in Connecticut was subsequently sold in February 2015 at a gain of $5,000.

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

REGULATION AND SUPERVISION

General

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

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

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

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

Regulation of the Bank

New York State Law

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

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

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

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

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

FDIC Regulations

Capital Requirements

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

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

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

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

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As of December 31, 2014, the Bank was deemed to be well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum Tier 1 leverage capital ratio of 5%, a minimum Tier 1 risk-based capital ratio of 6%, and a minimum total risk-based capital ratio of 10%.

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

Basel Committee on Banking Supervision

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

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

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

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

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

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

It is management’s belief that, as of December 31, 2014, the Company and the Bank would have met or exceeded all capital adequacy requirements under Basel III to be considered well capitalized on a fully phased-in basis if such requirements were currently effective.

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Standards for Safety and Soundness

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

Real Estate Lending Standards

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

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

Dividend Limitations

The FDIC has authority to use its enforcement powers to prohibit a savings bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law prohibits the payment of dividends that will result in the institution failing to meet applicable capital requirements on a pro forma basis. The

Bank is also subject to dividend declaration restrictions imposed by New York State law as previously discussed under “New York State Law.”

Prompt Corrective Regulatory Action

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

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

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

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

Enforcement

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

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

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

Insurance of Deposit Accounts

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

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

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

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

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2014 averaged 1.54 basis points of assessable deposits.

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

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

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

Transactions with Affiliates and Loans to Insiders

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

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

Community Reinvestment Act

Federal Regulation

Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and further requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's Community Reinvestment Act rating has been an "Outstanding" for the past 19 years.

New York State Regulation

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

NYDFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. Although the NYDFS conducted an examination of the Bank in June 2014 to determine the Bank's NYCRA rating, the NYDFS has not yet disclosed the Bank's NYCRA rating.

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Holding Company Regulation

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

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

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

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

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

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

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

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

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

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

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

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

On December 16, 2014, the MHC received notice from the Federal Reserve Board that it did not object to the waiver of dividends to be paid by the Company in the twelve months following MHC member approval of the dividend waiver, which occurred on November 25, 2014.

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

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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ITEM 1A. RISK FACTORS

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

Our non-performing assets have remained at elevated levels over the past few years primarily as a result of loans made prior to the economic recession. At December 31, 2014, we had total non-performing assets of $13.1 million, or 2.5% of total assets, a $4.4 million increase from December 31, 2013 and a $4.9 million increase from December 31, 2012. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or investments in real estate owned. We must reserve for probable losses, which are established through a current period charge to income in the provision for loan losses, and from time to time, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Northeast Community Bank. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly. At December 31, 2014, our allowance for loan losses amounted to 0.9% of total loans outstanding and 87.6% of nonperforming loans.

Our recent expansion into construction loans could expose us to increased lending risks.

Our construction loans and our participations in construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. In addition, construction costs may exceed original estimates as a result of increased materials, labor or other costs. Construction loans also often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness. We have sought to minimize these risks by limiting the amount of construction loans outstanding at any time, by limiting our construction loans to borrowers who have in effect pre-sold their construction project, and by limiting our construction loans to mixed-use, multi-family and single family projects. We have eliminated the risks involved in purchased participation construction loans by no longer engaging in these transactions. At December 31, 2014, $46.6 million, or 10.9%, of our loan portfolio consisted of construction loans.

At December 31, 2014, we had three construction loan participations that we purchased in August 2007 that subsequently converted into permanent loans in 2012 with an aggregate outstanding balance of $6.1 million at December 31, 2014. This balance represents our 25% participation interests in the loans, which are secured by a hotel. We currently do not buy participation interests in construction loans.

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

Our primary business strategy centers on continuing our emphasis on multi-family, mixed-use, and non-residential real estate loans. At December 31, 2014, $332.2 million, or 77.9%, of our loan portfolio consisted of multi-family residential, mixed-use and non-residential real estate loans. As a result, our credit risk profile is generally higher than traditional thrift institutions that have higher concentrations of one- to four-family residential loans.

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

As with loans secured by multi-family, mixed-use and non-residential real estate, commercial and industrial loans tend to be of higher risk than one- to four-family residential mortgage loans. We seek to minimize the risks involved in commercial and industrial lending by underwriting such loans on the basis of the cash flows produced by the business; by requiring that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and by requiring personal guarantees, whenever possible. However, the capacity of a borrower to repay a commercial and industrial loan is substantially dependent on the degree to which his or her business is successful. In addition, the collateral underlying such loans may depreciate over time, may not be conducive to appraisal, or may fluctuate in value, based upon the business' results. At December 31, 2014, $34.4 million, or 8.1%, of our loan portfolio consisted of commercial and industrial loans.

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

When borrowers default and do not repay the loans that we make to them, we may lose money. The allowance for loan losses is the amount estimated by management as necessary to cover probable losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. If our estimates and judgments regarding such matters prove to be incorrect, our allowance for loan losses might not be sufficient, and additional loan loss provisions might need to be made. Depending on the amount of such loan loss provisions, the adverse impact on our earnings could be material. Our allowance for loan losses amounted to 0.9% of total loans outstanding and 87.6% of nonperforming loans at December 31, 2014. Our allowance for loan losses at December 31, 2014 may not be sufficient to cover loan losses. A large loss or series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

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

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

Our net interest income is the interest we earn on loans and investment less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net

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

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

We face intense competition both in making loans in our lending territory and attracting deposits in our primary market area. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. As of June 30, 2014, the most recent date for which information is available from the FDIC, we held approximately 0.01% of the deposits in New York County, New York, approximately 0.56% and 0.12% of the deposits in Bronx and Westchester Counties, New York, respectively, and 0.17%, 0.49%, 0.11% and 0.04% of the deposits in Essex, Plymouth, Norfolk and Middlesex Counties, Massachusetts, respectively. Competition also makes it more difficult to hire and retain experienced employees. Some of the banks with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area and our lending territory.

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

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

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

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

Capital rules generally require insured depository institutions and their holding companies to hold more capital. The impact of these capital rules on our financial condition and operations is uncertain but could be materially adverse.

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

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

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

• changes to regulatory capital requirements;

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

• potential limitations on federal preemption;

• changes to deposit insurance assessments;

• regulation of debit interchange fees we earn;

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

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

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

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

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

The MHC owns a majority of Northeast Community Bancorp's common stock and, through its board of directors, will be able to exercise voting control over most matters put to a vote of stockholders. The same directors and officers who manage Northeast Community Bancorp and Northeast Community Bank also manage the MHC. As a federally chartered mutual holding company, the board of directors of the MHC must ensure that the interests of depositors of Northeast Community Bank are represented and considered in matters put to a vote of stockholders of Northeast Community Bancorp. Therefore, the votes cast by the MHC may not be in your personal best interests as a stockholder. For example, the MHC may exercise its voting control to defeat a stockholder nominee for election to the board of directors of Northeast Community Bancorp. In addition, stockholders will not be able to force a merger or second-step conversion transaction without the consent of the MHC. Some stockholders may desire a sale or merger transaction, since stockholders typically receive a premium for their shares, or a second-step conversion transaction, since fully converted institutions tend to trade at higher multiples than mutual holding companies.

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

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

The Federal Reserve Board, as successor regulatory agency to the Office of Thrift Supervision for the MHC, has adopted regulations which require the MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the regulations require that the MHC obtain the approval of a majority of the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company.

The MHC has received the approval of the Federal Reserve Board to waive dividends paid by the Company during the 12 months following November 25, 2014. It is expected that the MHC will continue to waive future dividends, except to the extent dividends are needed to fund the MHC's continuing operations, and subject to the ability of the MHC to obtain regulatory approval in the future of its requests to waive dividends.

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

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

Current Federal Reserve Board regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. However, Northeast Community Bancorp's former regulator, the Office of Thrift Supervision, had adopted a policy statement indicating that it viewed remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. The Federal Reserve Board has not adopted a similar policy statement or issued on the matter and future Federal Reserve Board regulation may negatively

affect Northeast Community Bancorp. Under certain circumstances, the Federal Reserve Board may give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Federal Reserve Board's concerns are not warranted in the particular case. Should the Federal Reserve Board prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected.

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

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

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

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

We are dependent on our information technology and telecommunications systems and third-party servicers whereby systems failures, interruptions or breaches of security could have a material adverse effect on us.

Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

In addition, we provide our customers with the ability to bank remotely, including over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We conduct our business through our main office, a main office annex, eight other full-service branch offices, two loan production offices, and our investment advisory and financial planning services office located in Westport, Connecticut. The following table sets forth certain information relating to these facilities as of December 31, 2014.

Location	Year Opened	Date of Lease Expiration	Owned/ Leased	Net Book Value
	(Dollars in thousands)			
Corporate Headquarters and Main Office Annex:				
325 Hamilton Avenue White Plains, New York 10601	1994	N/A	Owned	$ 893
55 Church Street White Plains, New York 10601	2012	3/31/2017	Leased	—
Branch Offices and Loan Production Offices:				
1470 First Avenue New York, NY 10021 (1)	2006	3/31/2016	Leased	—
590 East 187th Street Bronx, New York 10458	1972	N/A	Owned	397
242 West 23rd Street New York, NY 10011 (2)	1996	N/A	Owned/Leased	671
1751 Second Avenue New York, NY 10128	1978	9/30/2015	Leased	14
301 North Main Street, Ste. 5 New City, NY 10956 (3)	2014	11/30/2018	Leased	—
87 Elm Street Danvers, MA 01923	2009	N/A	Owned	1,461
8 No. Park Avenue Plymouth, MA 02360	2009	N/A	Owned	1,691
35 Edgell Road Framingham, MA 01701	2012	N/A	Owned	2,208
66 Elm Street Danvers, MA 01923 (3)	2011	N/A	Owned	940
281 Quincy Avenue Quincy, MA 02169	2012	N/A	Owned	2,092

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

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

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

(3) Loan production offices.

(4) In June 2007, the Company sold this building and temporarily relocated its branch office located at 1353-55 First Avenue to 1470 First Avenue, New York, New York, while 1353-55 First Avenue is being renovated. On June 30, 2007, the Bank entered into a 99 year lease agreement for office space on the first floor of the building at 1353-55 First Avenue so that the Bank may continue to operate a branch office at this location after the building has been renovated. The lease will commence upon completion of construction at 1353-55 First Avenue. Construction on the 1353-55 property has begun with a scheduled completion date of mid-2015.

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ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

On October 31, 2011 a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the "Court"), against the MHC and each of the directors of the Company and the MHC as defendants, and against the Company as a nominal defendant. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a "second-step" conversion of the MHC. As relief, the complaint requested, among other things, that the Company's board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company's motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell also asserted claims against the MHC, as majority shareholder of the Company.

The defendants and the Company filed a motion to dismiss on February 1, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company's directors and the MHC to proceed. The defendants and the Company appealed that decision to the Supreme Court of the State of New York's Appellate Division, First Department, ("Appellate Division") on November 27, 2013. On June 12, 2014, the Appellate Division affirmed the trial court's decision.

Additionally, on February 21, 2014, Stilwell moved to disqualify the Company's counsel, which represents the Company, the individual directors, and MHC in this litigation. On December 30, 2014, the New York Supreme Court Appellate Division, First Department, affirmed the trial court's decision to deny Stilwell's disqualification motion.

The parties have completed fact discovery and expert discovery. On January 14, 2015, Stilwell filed a certification of readiness for trial. Motions for summary judgment were filed by both parties on March 3, 2015. Oppositions to summary judgment are due March 31, 2015. Replies in support of summary judgment are due April 21, 2015.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

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

	Dividends	High	Low
2014:			
First Quarter	$ 0.03	$7.67	$6.55
Second Quarter	0.03	7.44	6.95
Third Quarter	0.03	7.20	6.65
Fourth Quarter	0.03	7.28	6.65
2013:			
First Quarter	$ 0.03	$5.60	$5.25
Second Quarter	0.03	6.79	5.40
Third Quarter	0.03	7.00	6.15
Fourth Quarter	0.03	8.00	7.00

Northeast Community Bancorp, MHC, the Company's majority stockholder, has waived receipt of all dividends declared by the Company. During 2014, the aggregate amount of dividends waived was $873,000. On a cumulative basis, $6,110,000 of such dividends have been waived through December 31, 2014.

As of February 28, 2015, there were approximately 238 holders of record of the Company's common stock.

Purchases of Equity Securities

On November 25, 2014, the Company announced that its Board of Directors approved the repurchase for up to 255,123 shares of the Company's outstanding common stock held by persons other than the MHC. The following table presents information regarding the Company's stock repurchases during the three months ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31	—	—	—	—
November 1 to November 30	—	—	—	—
December 1 to December 31	45,000	$ 7.07	45,000	210,123
Total	45,000	$ 7.07	45,000	210,123

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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share data)				
Financial Condition Data:					
Total assets	$515,425	$458,225	$444,224	$489,289	$466,008
Cash and cash equivalents	34,010	31,531	49,242	82,583	44,453
Securities held-to-maturity	6,595	8,444	11,987	16,099	19,858
Securities available-for-sale	40	113	129	149	162
Loans receivable, net	423,445	367,825	333,787	350,894	364,798
Bank owned life insurance	21,113	20,490	19,852	16,736	16,145
Deposits	374,052	325,209	318,120	353,636	326,830
Federal Home Loan Bank advances	30,000	21,000	15,000	20,000	25,000
Total stockholders' equity	103,810	104,168	103,849	107,065	108,139
Operating Data:					
Interest income	$19,948	$18,552	$20,028	$22,151	$24,642
Interest expense	3,444	3,192	3,763	5,177	8,435
Net interest income	16,504	15,360	16,265	16,974	16,207
Provision for loan losses	(208)	(554)	5,623	1,113	3,487
Net interest income after provision for loan losses	16,712	15,914	10,642	15,861	12,720
Gain (loss) on sale of premises, equipment and deposits	—	(1)	(9)	10	1,924
Other non-interest income	1,889	1,990	2,588	1,882	1,718
Non-interest expenses	16,117	16,366	18,036	14,201	13,590
Income (loss) before provision (benefit) for income taxes	2,484	1,537	(4,815)	3,552	2,772
Income tax provision (benefit)	787	400	(2,301)	1,197	904
Net income (loss)	$1,697	$1,137	$(2,514)	$2,355	$1,868
Net income (loss) per share – basic and diluted	$0.14	$0.09	$(0.20)	$0.19	$0.15
Dividends declared per share	$0.12	$0.12	$0.09	$0.12	$0.12

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	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
Performance Ratios:					
Return on average assets	0.35 %	0.26 %	(0.54)%	0.51 %	0.37
Return on average equity	1.64	1.08	(2.35)	2.18	1.72
Interest rate spread (1)	3.56	3.69	3.50	3.53	2.96
Net interest margin (2)	3.78	3.94	3.76	3.89	3.39
Noninterest expense to average assets	3.33	3.76	3.85	3.07	2.67
Efficiency ratio (3)	87.63	94.33	95.71	75.27	68.47
Average interest-earning assets to average interest-bearing liabilities	127.42	130.27	129.46	130.26	124.48
Average equity to average assets	21.52	24.07	22.81	23.37	21.30
Capital Ratios - Bank:					
Tangible capital	16.79	18.05	18.39	18.02	18.41
Core capital	16.79	18.05	18.39	18.02	18.41
Total risk-based capital	22.82	24.17	25.38	31.30	29.84
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	0.89	1.08	1.38	2.07	2.06
Allowance for loan losses as a percent of non-performing loans	87.60	86.05	117.41	36.19	35.07
Net charge-offs to average outstanding loans during the period	0.00	0.03	2.37	0.37	0.67
Non-performing loans as a percent of total loans	1.02	1.26	1.17	5.72	5.87
Other Data:					
Number of:					
Real estate loans outstanding	575	495	457	449	468
Deposit accounts	11,073	11,304	12,028	12,170	13,042
Offices (4)	13	13	13	10	9

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

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

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

(4) At December 31, 2014, includes our main office, a main office annex, our eight other full-service branch office, our future First Avenue, New York office, our two loan production offices, our investment advisory service office in Westport, Connecticut.

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

Overview

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

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

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Balance Sheet Analysis

Overview. Total assets at December 31, 2014 increased by $57.2 million, or 12.5%, to $515.4 million from total assets of $458.2 million at December 31, 2013. The increase was primarily due to increases of $55.6 million in loans receivable, net, $4.7 million in real estate owned, $2.5 million in cash and cash equivalents, $623,000 in bank owned life insurance, $339,000 in restricted stock, and $186,000 in accrued interest receivable, offset by decreases of $2.3 million in other assets, $2.0 million in certificates of deposits at other financial institutions, $1.8 million in investment securities held-to-maturity, $516,000 in premises and equipment, $73,000 in investment securities available-for-sale, and $61,000 in intangible assets.

The increase in total assets was funded by increases of $48.8 million in deposits, $9.0 million in FHLB advances, and $364,000 in accounts payable and accrued expenses, offset by decreases of $649,000 in advance payments by borrowers for taxes and insurance. As of December 31, 2014, the Company had stockholders equity of $103.8 million, or 20.1% of assets on a consolidated basis.

In 2010, we proactively reduced mortgage origination levels for mixed-use and non-residential real estate loans, based on our unwillingness to offer rates and terms on loan products that, in our opinion, do not accurately reflect the risk associated with particular loan types in the current economic and real estate environment. During the second half of 2011 and into 2014, we began increasing our origination of loans secured by real-estate. In 2012, we commenced the origination of construction loans secured by multi-family and non-residential properties as an accommodation to maintain and/or develop relationships with our deposit and loan customers.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate real estate loans secured by multi-family residential real estate, mixed-use real estate and non-residential real estate. To a much lesser extent, we originate commercial and industrial and consumer loans. At December 31, 2014, loans receivable, net, totaled $423.4 million, an increase of $55.6 million, or 15.1%, from total loans receivable, net, of $367.8 million at December 31, 2013.

The largest segment of our real estate loans is multi-family residential loans. As of December 31, 2014, these loans totaled $188.0 million, or 44.1% of our total loan portfolio, compared to $188.9 million, or 50.9% of our total loan portfolio at December 31, 2013. As of December 31, 2014, mixed-use loans totaled $61.5 million, or 14.4% of our total loan portfolio, compared to $50.5 million, or 13.6% of our total loan portfolio at December 31, 2013. Non-residential real estate loans totaled $82.6 million, or 19.4% of our total loan portfolio at December 31, 2014, compared to $82.0 million, or 22.1% of our total loan portfolio at December 31, 2013. At December 31, 2014 and 2013, one- to four-family residential real estate loans totaled $13.3 million and $11.8 million, or 3.1% and 3.2% of our total loan portfolio, respectively.

Our originated construction loan portfolio totaled $46.6 million, net of loans in process of $41.5 million, or 10.9% of our loan portfolio at December 31, 2014, compared to $6.6 million, net of loans in process of $10.6 million, or 1.8% of our loan portfolio at December 31, 2013. The increase in construction loans was due to our expansion in the Massachusetts construction market through the origination of construction loans secured by multi-family and single family properties. In addition, in the latter part of 2013 we entered the New York construction market through the origination of construction loans secured by multi-family and residential condominium properties located in New York State. The Bank also hired additional construction lending personnel in the New York construction market and opened a Rockland County, New York loan production office.

Our construction loan portfolio consisted of five Massachusetts construction loans with an aggregate balance of $1.6 million, net of loans in process of $968,000, and 64 New York construction loans with an aggregate balance of $45.0 million, net of loans in process of $40.5 million. All 69 construction loans were performing according to their terms at December 31, 2014. The average balance of loans in our construction loan portfolio was $675,000 at December 31, 2014.

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The largest construction project consisted of three loans totaling $7.0 million that had an aggregate outstanding balance of $2.7 million, net of loans in process of $4.4 million, and were performing according to their terms at December 31, 2014. The three loans are secured by the underlying real estate and improvements under construction, which are comprised of four apartment buildings containing 70 units located in Middletown, New York.

The largest outstanding construction loan had a balance of $3.0 million, net of loans in process of $293,000, and was performing according to its terms at December 31, 2014. This loan is secured by the underlying real estate and improvements under construction, which are comprised of three buildings containing 11 condominium units located in Spring Valley, New York.

The largest outstanding construction loan relationship with one borrower was comprised of ten loans totaling $13.1 million, with an outstanding balance of $8.8 million, net of loans in process of $4.3 million, and were performing according to their terms at December 31, 2014.

At December 31, 2014, our commercial and industrial loan portfolio totaled $61.2 million in committed loans, with $34.4 million drawn against such commitments, compared to $51.6 million in committed loans, with $31.3 million drawn against such commitments at December 31, 2013.

We also originate several types of consumer loans consisting of personal consumer loans, loans secured by savings accounts or certificates of deposit (share loans), and overdraft protection for checking accounts which is linked to statement savings accounts and has the ability to transfer funds from the statement savings account to the checking account when needed to cover overdrafts. Consumer loans totaled $142,000 and represented 0.03% of total loans at December 31, 2014 compared to $161,000, or 0.04% of total loans at December 31, 2013.

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

	At December 31,							
	2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real estate:								
Residential Real Estate:								
One- to four-family	$13,314	3.12 %	$11,752	3.17 %	$7,761	2.30 %	$627	0.18 %
Multi-family(1)	188,017	44.07	188,923	50.89	178,644	52.88	189,253	52.93
Mixed-use(1)	61,546	14.43	50,467	13.60	41,895	12.40	51,229	14.33
Total residential real estate loans	262,877	61.62	251,142	67.66	228,300	67.58	241,109	67.44
Non-residential real estate (1)	82,622	19.37	81,985	22.09	82,312	24.37	83,602	23.38
Total real estate	345,499	80.99	333,127	89.75	310,612	91.95	324,711	90.82
Construction (2)	46,607	10.92	6,568	1.77	841	0.25	9,065	2.54
Commercial and industrial	34,407	8.06	31,345	8.44	26,274	7.78	23,725	6.64
Consumer:								
Overdraft lines of credit	34	0.01	32	0.01	34	0.01	44	0.01
Passbook	4	—	11	—	28	0.01	24	0.01
Consumer	104	0.02	118	0.03	15	—	—	—
Total consumer	142	0.03	161	0.04	77	0.02	68	0.02
Total loans	426,655	100.00%	371,201	100.00%	337,804	100.00%	357,569	100.00%
Net deferred loan costs	606		639		629		722	
Allowance for losses	(3,816)		(4,015)		(4,646)		(7,397)	
Loans, net	$423,445		$367,825		$333,787		$350,894	

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

(2) Includes $1,457 in loan participations originated by the Bank which are held by the Company at December 31, 2014.

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The following table sets forth certain information at December 31, 2014 regarding the dollar amount of loans repricing or maturing during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated maturity are reported as due in one year or less.

	At December 31, 2014					
	Residential Real Estate	Non-Residential Real Estate	Commercial and Industrial	Construction	Consumer and other	Total
	(In thousands)					
One year or less	$18,519	$ 22,172	$ 26,747	$ 46,607	$ 38	$114,083
More than one year to five years	221,338	53,200	2,769	—	9	277,316
More than five years	23,020	7,250	4,891	—	95	35,256
Total	$262,877	$ 82,622	$ 34,407	$ 46,607	$ 142	$426,655

The following table sets forth the dollar amount of all loans at December 31, 2014 that are due after December 31, 2015 and have either fixed or adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total
	(In thousands)		
Residential real estate:			
One- to four-family	$1,863	$ 11,422	$13,285
Multi-family	11,394	159,665	171,059
Mixed-use	2,641	57,373	60,014
Non-residential real estate	2,951	57,499	60,450
Construction	—	—	—
Commercial and industrial	7,660	—	7,660
Consumer	104	—	104
Total	$26,613	$ 285,959	$312,572

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

	2014	2013	2012	2011	2010
	(In thousands)				
Total loans at beginning of period	$371,201	$337,804	$357,569	$371,538	$391,947
Loans originated:					
Residential real estate:					
One- to four-family	3,002	3,235	9,385	450	—
Multi-family	40,912	44,510	30,745	34,505	5,210
Mixed-use	21,272	14,947	5,863	1,550	—
Non-residential real estate	18,068	9,935	14,597	7,043	420
Construction	76,176	12,904	5,996	—	—
Commercial and industrial	7,901	4,950	5,701	8,728	2,558
Consumer	—	112	16	—	—
Total loans originated	167,331	90,593	72,303	52,276	8,188
Construction loan participation purchased	—	—	—	—	—
Deduct:					
Loan principal repayments	111,096	57,091	83,579	62,527	25,979
Charge offs	781	105	8,489	1,375	2,618
Total deductions	111,877	57,196	92,068	63,902	28,597
Other increases (decreases), net	—	—	—	(2,343)	—
Total loans at end of period	$426,655	$371,201	$337,804	$357,569	$371,538

Securities. Our securities portfolio consists primarily of residential mortgage-backed securities, FHLB of New York restricted stock, and ACBB restricted stock. Securities decreased by $1.6 million, or 15.6%, from $10.2 million at December 31, 2013, to $8.6 million at December 31, 2014. The decrease was primarily due to maturities and repayments of $2.0 million, partially offset by an increase in FHLB restricted stock of $269,000, or 16.9%, to $1.9 million at December 31, 2014 from $1.6 million at December 31, 2013 and the purchase of $70,000 in ACBB restricted stock during 2014. The increase in FHLB stock was due to increases in mortgage-related assets and borrowings from the FHLB, which increased the required amount of FHLB stock. The purchase of ACBB stock was due to the addition of ACBB as one of the Company’s correspondent banks. At December 31, 2014 and December 31, 2013, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our consolidated equity.

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

	At December 31,					
	2014		2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					

Securities available for sale:						
Mortgage-backed securities - residential	$39	$40	$110	$113	$125	$129
Securities held to maturity:						
Mortgage-backed securities - residential	$6,595	$6,805	$8,444	$8,739	$11,987	$12,561

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The following table sets forth the stated final maturities and weighted average yields of debt securities at December 31, 2014. Certain mortgage-backed securities have adjustable interest rates and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below. At December 31, 2014, mortgage-backed securities with adjustable rates totaled $5.4 million.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available for sale:										
Mortgage-backed securities	$—	—%	$—	— %	$6	1.95 %	$33	2.21 %	$39	2.17 %
Securities held to maturity:										
Mortgage-backed securities	$—	—%	$67	2.38 %	$156	2.08 %	$6,372	3.47 %	$6,595	3.43 %

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

We resumed the use of these services in December 2013 through 2014 by obtaining $9.4 million in 2013 and $32.7 million in 2014 in these non-broker certificates of deposits due to a need to increase liquidity to fund loan originations and to diversify the sources of funds. We had maturity and redemption of $746,000 in 2013 and $3.2 million in 2014 in these non-broker certificates of deposits. As a result, these non-broker certificates of deposits have increased to $38.9 million, or 10.4% of total deposits at December 31, 2014 compared to $9.4 million, or 2.9% of total deposits at December 31, 2013.

Deposits increased by $48.8 million, or 15.0%, in the year ended December 31, 2014. The increase in deposits was primarily attributable to efforts by the Company to increase liquidity to fund loan originations and to increase reliance on long term certificates of deposits, business customer-related short term rate sensitive NOW and money market deposits, and business customer-related noninterest bearing demand deposits. This resulted in increases of $29.8 million in certificates of deposits, $12.5 million in NOW and money market deposit accounts, and $8.8 million in non-interest bearing demand deposits, offset by a decrease of $2.2 million in savings accounts.

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

	At December 31,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
NOW and money market deposit accounts	$72,797	19.46 %	$60,334	18.55 %	$62,868	19.80 %
Savings accounts	82,976	22.18	85,156	26.19	84,404	26.50
Non-interest bearing demand deposits	37,088	9.91	28,310	8.70	22,932	7.20
Certificates of deposit	181,191	48.45	151,409	46.56	147,916	46.50
Total	$374,052	100.00%	$325,209	100.00%	$318,120	100.00%

The Company had $986,000 at December 31, 2014 and $980,000 at December 31, 2013 in Certificate of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits that were fully-insured brokered deposits as defined in the FDIC call report instructions. The CDARS certificates of deposits were obtained from one retail

depositor and then transferred into the CDARS Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Networks as reciprocal deposits.

The following table indicates the amount of certificates of deposit with balances over $100,000 by time remaining until maturity as of December 31, 2014. We do not solicit jumbo certificates of deposit nor do we offer special rates for jumbo certificates. The minimum deposit to open a certificate of deposit ranges from $500 to $2,500.

Maturity Period	Certificates of Deposit
	(In thousands)
Three months or less	$ 5,111
Over three through six months	6,842
Over six through twelve months	21,651
Over twelve months	87,744
Total	$ 121,348

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Borrowings. We may utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments and to meet deposit withdrawal requirements. Advances from the FHLB increased to $30.0 million as of December 31, 2014 from $21.0 million as of December 31, 2013.

The contractual maturities of FHLB advances at December 31, 2014 are as follows:

	Amount	Weighted Average Interest Rate	
Advances maturing in:			
One year or less	$27,000	0.37	%
After one to two years	3,000	1.03	
	$30,000	0.44	%

Stockholders' Equity. Stockholders' equity decreased by $358,000, or 0.3%, to $103.8 million at December 31, 2014 from $104.2 million at December 31, 2013. The decrease was primarily due to stock repurchases of $1.7 million and cash dividends declared of $577,000, partially offset by comprehensive net income of $1.7 million and $184,000 for ESOP shares earned for the period.

On December 16, 2014, Northeast Community Bancorp, MHC, the Company's majority stockholder, received notice from the Federal Reserve Board that it did not object to the waiver of dividends paid by the Company in the twelve months following MHC member approval of the dividend waiver, which occurred on November 25, 2014. *See "Risk Factors—The amount of dividends we pay on our common stock, if any, may be limited by the ability of NorthEast Community Bancorp, MHC to waive receipt of dividends."*

Results of Operations for the Years Ended December 31, 2014 and 2013

Overview.

	2014		2013		% Change	
	(Dollars in thousands)					
Net income	$1,697		$1,137		49.25	%
Return on average assets	0.35	%	0.26	%	34.62	
Return on average equity	1.64	%	1.08	%	51.85	
Average equity to average assets	21.52	%	24.07	%	(10.59	)

Net income for the year ended December 31, 2014 increased by $560,000, or 49.3%, to $1.7 million from $1.1 million in 2013. The increase was primarily the result of an increase in net interest income and a decrease in non-interest expense, offset by decreases in the credit for loan losses and non-interest income and an increase in income taxes.

Net Interest Income. Net interest income increased by $1.1 million, or 7.4%, to $16.5 million for the year ended December 31, 2014 from $15.4 million for the year ended December 31, 2013. The increase in net interest income resulted from an increase of $1.4 million in interest income that exceeded an increase of $252,000 in interest expense.

The increase in interest income was due to increases in the average balance of our interest earning assets, offset a decrease in the yield of our interest earning assets. The increase in the average balance of our interest earning assets was primarily in loans receivable, offset by decreases in securities and other interest-earning assets. In this regard, the average balance of our interest earning assets increased by $46.4 million, or 11.9%, to $436.5 million for the year ended December 31, 2014 from $390.1 million for the year ended December 31, 2013.

The net interest spread decreased by 13 basis points to 3.56% for the ended December 31, 2014 from 3.69% for the year ended December 31, 2013. The net interest margin decreased by 16 basis points to 3.78% for the year ended December 31, 2014 from 3.94% for the year ended December 31, 2013. The decrease in the net interest rate spread and the net interest margin in 2014 compared to 2013 was due to a decrease in the yield on our interest-earning assets, offset by a decrease in the cost of our interest-bearing liabilities.

The average yield on our interest-earning assets decreased by 19 basis points to 4.57% for the year ended December 31, 2014 from 4.76% for the year ended December 31, 2013 and the cost of our interest-bearing liabilities decreased by six basis points to 1.01% for the year ended December 31, 2014 from 1.07% for the year ended December 31, 2013. The decrease in the yield on our interest earning assets was due to a decrease in the yield on loans receivable, offset by an increase in the yield on securities and other interest-earning assets. The decrease in the cost of our interest-bearing liabilities was due to a decrease in the cost of borrowed money, offset by an increase in the cost of interest-bearing deposits.

Total interest income increased by $1.4 million, or 7.5%, to $20.0 million for the year ended December 31, 2014 from $18.6 million for the year ended December 31, 2013. Interest income on loans increased by $1.4 million, or 7.8%, to $19.6 million for 2014 from $18.2 million for 2013 as a result of an increase in the average balance of loans receivable, offset by a decrease of 31 basis points in the average yield on loans to 4.95% for 2014 from 5.26% for 2013. The average balance of loans receivable increased by $50.5 million, or 14.6%, to $397.0 million at December 31, 2014 from $346.4 million at December 31, 2013. The increase in the average balance of our loans receivable was due to loan originations totaling $167.3 million for 2014 that exceeded loan repayments and charge-offs totaling $111.9 million. The decrease in the yield of our loans receivable was due to the pay-off of higher yielding mortgage loans and the refinancing and/or re-pricing to lower interest rates of mortgage loans in our loan portfolio.

Interest income on securities decreased by $47,000, or 14.3%, to $282,000 for 2014 from $329,000 for 2013 as a result of a decrease in the average balance of securities, offset by an increase of 13 basis points in the average yield on securities to 3.04% for 2014 from 2.91% for 2013. The average balance of securities decreased by $2.0 million, or 17.9%, to $9.3 million at December 31, 2014 from $11.3 million at December 31, 2013. The decrease in the average balance on our securities was due to the principal repayments on investment securities, offset by an increase in restricted stock. The increase in the yield on our securities was due to dividends from FHLB of New York stock that yielded approximately 4.0% during 2014 and an increase of FHLB of New York stock as a percentage of total investment securities.

Interest income on other interest-earning assets increased by $17,000, or 130.8%, to $30,000 for 2014 from $13,000 for 2013 as a result of an increase of six basis points in the average yield on other interest-earning assets to 0.10% for 2014 from 0.04% for 2013, offset by a decrease in the average balance of other interest-earning assets. The increase in the yield was due to the placement of other interest-earning assets in one of our corresponding banks to generate higher yield. The average balance of other interest-earning assets decreased by $2.1 million, or 6.4%, to $30.3 million at December 31, 2014 from $32.4 million at December 31, 2013. The decrease in the average balance of other interest-earning assets was due to decreases in the average balance of cash equivalents to fund loan originations.

Total interest expense increased by $252,000, or 7.9%, to $3.4 million for the year ended December 31, 2014 from $3.2 million for the year ended December 31, 2013. Interest expense on deposits increased by $336,000, or 11.4%, to $3.3 million for the year ended December 31, 2014 from $3.0 million for the year ended December 31, 2013. During this same period, the average interest cost of deposits increased by two basis points to 1.03% for the year ended December 31, 2014 from 1.01% for the year ended December 31, 2013.

The increase in interest expense on deposits was due to an increase of $28.2 million, or 9.6%, in the average balance of interest-bearing deposits to $320.7 million for the year ended December 31, 2014 from $292.5 million for the year ended December 31, 2013. The increase in the average balance of interest-bearing deposits was due to increases in the average balance of our interest-bearing demand deposits, interest-bearing savings and club accounts, and interest-bearing certificates of deposits. The increase in the average balances of our interest-bearing demand deposits and interest-bearing savings and club accounts was due to the offering of competitive interest rates to generate deposits. The increase in the average balance of our interest-bearing certificates of deposits due to the acquisition of competitively priced interest-bearing certificates of deposit through a non-broker nationwide certificate of deposit listing service.

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The interest expense of our interest-bearing demand deposits increased by $32,000, or 14.6%, to $251,000 for the year ended December 31, 2014 from $219,000 for the year ended December 31, 2013. The increase in interest expense in our interest-bearing demand deposits was due to an increase of $3.2 million, or 5.2%, in the average balance of our interest-bearing demand deposits to $65.4 million for the year ended December 31, 2014 from $62.2 million for the year ended December 31, 2013. The increase in interest expense on our interest-bearing demand deposits was also due to a three basis point increase in the average interest cost to 0.38% for the year ended December 31, 2014 from 0.35% for the year ended December 31, 2013 as we continued to offer competitive interest rates to generate deposits.

The interest expense of our interest-bearing savings and club deposits increased by $24,000, or 5.4%, to $469,000 for the year ended December 31, 2014 from $445,000 for the year ended December 31, 2013. The increase in interest expense in our interest-bearing savings and club deposits was due to an increase of $2.1 million, or 2.5%, in the average balance of our interest-bearing savings and club deposits to $85.1 million for the year ended December 31, 2014 from $83.0 million for the year ended December 31, 2013. The increase in interest expense on our interest-bearing savings and club deposits was also due to a one basis point increase in the average interest cost to 0.55% for the year ended December 31, 2014 from 0.54% for the year ended December 31, 2013 as we continued to offer competitive interest rates to generate deposits.

The interest expense of our interest-bearing certificates of deposit increased by $280,000, or 12.2%, to $2.6 million for the year ended December 31, 2014 from $2.3 million for the year ended December 31, 2013. The increase in interest expense in our interest-bearing certificates of deposit was due to an increase of $22.9 million, or 15.5%, in the average balance of our interest-bearing certificates of deposit to $170.2 million for the year ended December 31, 2014 from $147.3 million for the year ended December 31, 2013. The increase in our interest-bearing certificates of deposit was due to management’s decision to continue offering competitive interest rates to generate deposits through a non-broker nationwide certificate of deposit listing service. The increase in interest expense of our interest-bearing certificates of deposit was offset by a four basis decrease in the average interest cost on such certificates to 1.51% for the year ended December 31, 2014 from 1.55% for the year ended December 31, 2013. The decrease in the average interest cost of our interest-bearing certificates of deposit was due to the re-pricing of maturing certificates of deposit and the acquisition of competitively priced interest-bearing certificates of deposit through a non-broker nationwide certificate of deposit listing service.

Interest expense on borrowings decreased by $84,000, or 34.9%, to $157,000 for the year ended December 31, 2014 from $241,000 for the year ended December 31, 2013. The decrease in interest expense on borrowings was due to a decrease of 271 basis points in the cost of borrowed money to 0.72% for the year ended December 31, 2014 from 3.43% for the year ended December 31, 2013 due primarily to the maturity and repayment of higher costing FHLB advances from 2013 to 2014 and the origination of new lower costing FHLB advances in the latter part of 2013 and continuing into 2014. The decrease in interest expense on borrowings was partially offset by an increase of $14.9 million, or 212.1%, in the average balance of borrowed money to $21.9 million for the year ended December 31, 2014 from $7.0 million for the year ended December 31, 2013.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total

dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using average daily balances. Average loan balances include nonaccrual loans. Loan fees are included in interest income on loans. Interest income on loans and investment securities has not been calculated on a tax equivalent basis because the impact would be insignificant.

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	Year Ended December 31,						
	2014			2013			2012
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance
	(Dollars in Thousands)						
Assets:							
Interest-earning assets:							
Loans	$396,950	$19,636	4.95%	$346,449	$18,210	5.26%	$352,912
Securities	9,283	282	3.04	11,305	329	2.91	15,704
Other interest-earning assets	30,315	30	0.10	32,394	13	0.04	64,399
Total interest-earning assets	436,548	19,948	4.57	390,148	18,552	4.76	433,015
Allowance for loan losses	(4,065)			(4,305)			(5,785)
Noninterest-earning assets	49,166			49,535			41,740
Total assets	$481,649			$435,378			$468,970
Liabilities and equity:							
Interest-bearing liabilities:							
Interest-bearing demand	$65,421	$251	0.38%	$62,181	$219	0.35%	$92,110
Savings and club accounts	85,061	469	0.55	82,976	445	0.54	87,505
Certificates of deposit	170,172	2,567	1.51	147,307	2,287	1.55	138,895
Total interest-bearing deposits	320,654	3,287	1.03	292,464	2,951	1.01	318,510
Borrowings	21,949	157	0.72	7,033	241	3.43	15,971
Total interest-bearing liabilities	342,603	3,444	1.01	299,497	3,192	1.07	334,481
Noninterest-bearing demand	27,213			23,234			19,715
Other liabilities	8,204			7,834			7,814
Total liabilities	378,020			330,565			362,010
Stockholders' equity	103,629			104,813			106,960
Total liabilities and stockholders' equity	$481,649			$435,378			$468,970
Net interest income		$16,504			$15,360		
Interest rate spread			3.56%			3.69%	
Net interest margin			3.78%			3.94%	
Net interest-earning assets	$93,945			$90,651			$98,534
Interest-earning assets to interest-bearing liabilities	127.42 %			130.27 %			129.46 %

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

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	2014 Compared to 2013 Increase (Decrease) Due to			2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest and dividend income:						
Loans receivable	$2,543	$(1,117)	$1,426	$(353)	$(947)	$(1,300)
Investment securities	(61)	14	(47)	(129)	(26)	(155)
Other interest-earning assets	(1)	18	17	(14)	(7)	(21)
Total interest-earning assets	2,481	(1,085)	1,396	(496)	(980)	(1,476)
Interest expense:						
Interest-bearing demand deposits	12	20	32	(134)	(144)	(278)
Savings accounts	11	13	24	(28)	(85)	(113)
Certificates of deposit	346	(65)	280	131	5	136
Borrowings	217	(302)	(84)	(308)	(8)	(316)
Total interest-bearing liabilities	586	(334)	252	(339)	(232)	(571)
Net change in interest income	$1,895	$(751)	$1,144	$(157)	$(748)	$(905)

Provision for Loan Losses. We recorded a reduction to the allowance for loan losses of $208,000 and $554,000 during the years ended December 31, 2014 and 2013, respectively. During 2014, we charged-off $781,000 against four non-performing multi-family mortgage loans, one mixed-use mortgage loan, and one non-residential mortgage loan. During 2013, we charged-off $105,000 against two non-performing non-residential mortgage loans to reduce the aggregate carry value to $2.8 million as of December 31, 2013. The primary reason for the decreased provision during 2014 and 2013 was an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions and a decrease in our borrowers requesting assistance through modification of loan terms.

The reduction in the allowance for loan losses in 2014 was also due to the Company’s decision to revise the methodology used to calculate the historical loss factor. The Company revised the historical loss look back period from three to two years as a result of the Company’s determination that the Company’s historical loss charge-offs from 2009 to 2012 was a result of the recent economic recession, that the bulk of the loss charge-offs from 2009 to 2012 occurred in 2012, that there has not been a significant amount of loss charge-offs during the past two years, and that the Company’s loan portfolio has weathered the recession with no further anticipated significant loss charge-offs. The Company’s allowance for loan losses at December 31, 2014 would have been $274,000 larger and the provision (credit) for loan losses recognized for the year ended December 31, 2014 would have been $274,000 lower resulting in a provision for loan losses of $66,000 without the change in the methodology.

We recorded recoveries of $790,000 and $28,000 during the years ended December 31, 2014 and December 31, 2013, respectively.

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

Non-interest Income. The following table shows the components of noninterest income for the years ended December 31, 2014 and 2013.

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	2014	2013	% Change 2014/2013
	(Dollars in thousands)		
Other loan fees and service charges	$463	$601	(23.0)%
Loss on dispositions of equipment	—	(1)	(100.0)
Earnings on bank owned life insurance	623	638	(2.4)
Investment advisory fees	779	729	6.9
Other	24	22	9.1
Total	$1,889	$1,989	(5.0)%

The decrease in non-interest income was primarily due to decreases of $138,000 in other loan fees and service charges and $15,000 in earnings on bank owned life insurance, offset by increases of $50,000 in investment advisory fee income and $2,000 in other non-interest income.

The decrease in other loan fees and service charges was due to decreases of $64,000 in mortgage broker fee income, $42,000 in commercial and industrial loan fee income, $13,000 in ATM fees, $11,000 in late charges for loan payments, and $6,000 in loan modification fees. The decrease in mortgage broker fee income was due to the elimination of the 1-4 family residential mortgage loan brokerage department and the termination of the related staff in January 2013. The increase in investment advisory fee income was due to an increase in assets under management.

Non-interest Expense. The following table shows the components of non-interest expense and the percentage changes for the years ended December 31, 2014 and 2013.

	Year Ended December 31,		
	2014	2013	% Change 2014/2013
	(Dollars in thousands)		
Salaries and employee benefits	$ 8,658	$ 8,224	5.3 %
Net occupancy expense of premises	1,381	1,469	(6.0)
Equipment	526	637	(17.4)
Outside data processing	1,109	1,046	6.0
Advertising	42	59	(28.8)
Impairment loss on goodwill	—	334	(100.0)
REO expenses	486	425	14.4
FDIC insurance premiums	430	392	9.7
Other operating expenses:			
Service contracts	457	402	13.7
Insurance	232	222	4.5
Audit and accounting	544	440	23.6
Directors compensation	403	461	(12.6)
Telephone	477	392	21.7
Office supplies and stationary	66	77	(14.3)

Director, officer, and employee expenses	262	332	(21.1)
Legal fees	375	630	(40.5)
Other	669	824	(18.8)
Total non-interest expenses	$ 16,117	$ 16,366	(1.5)

Non-interest expense decreased by $249,000, or 1.5%, to $16.1 million for the year ended December 31, 2014 from $16.4 million for the year ended December 31, 2013. The decrease resulted primarily from decreases of $334,000 in impairment loss on goodwill, $295,000 in other operating expense, $111,000 in equipment expense, $88,000 in occupancy expense, and $17,000 in advertising expense, partially offset by increases of $434,000 in salaries and employee benefits, $63,000 in outside data processing expense, $61,000 in real estate owned expense, and $38,000 in FDIC insurance expense.

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There was no goodwill impairment expense in 2014 compared to a goodwill impairment expense of $334,000 in 2013. During the second quarter of 2013, the Company determined that an adjustment to the goodwill impairment of $227,000 previously recorded in 2012 was necessary. As a result, an additional impairment charge of $334,000 was recognized in 2013. The goodwill was recorded in connection with the Hayden Financial Group acquisition in 2007. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Other non-interest expense decreased by $295,000, or 7.8%, to $3.5 million in 2014 from $3.8 million in 2013 due mainly to decreases of $255,000 in legal fees, $148,000 in consulting services, $70,000 in directors, officers and employee expenses, $58,000 in directors compensation, $38,000 in miscellaneous other non-interest expense, and $11,000 in office supplies, partially offset by increases of $104,000 in audit and accounting fees, $85,000 in telephone expenses, $55,000 in service contracts expenses, $32,000 in recruitment expenses related to the hiring of additional personnel, and $10,000 in insurance expenses.

Equipment expense decreased by $111,000, or 17.4%, to $526,000 in 2014 from $637,000 in 2013 due to decreases in the purchases of additional equipment and continued efforts to contain expenses. Advertising expense decreased by $17,000, or 28.8%, to $42,000 in 2014 from $59,000 in 2013 due to efforts to contain certain marketing costs.

Salaries and employee benefits, which represented 53.7% of the Company’s non-interest expense for the year ended December 31, 2014, increased by $434,000, or 5.3%, to $8.6 million in 2014 from $8.2 million in 2013. The increase was due to the staffing of the Rockland County, New York loan production office that opened in January 2014, offset by a reduction in the number of full time equivalent employees to 94 at December 31, 2014 from 102 at December 31, 2013. The decrease in full time equivalent employees was due to the Company’s efforts to control cost by reducing staff in various departments, including branch operations, lending operations, headquarters support personnel, and the wealth management department.

Outside data processing expense increased by $63,000, or 6.0%, to $1.1 million for the year ended December 31, 2014 from $1.0 million for the year ended December 31, 2013 due primarily to additional services provided in 2014 by the Company’s core data processing vendor as a result of the expansion of the Company’s facilities and services.

Real estate owned expenses increased by $61,000, or 14.4%, to $486,000 for the year ended December 31, 2014 from $425,000 for the year ended December 31, 2013 due to operating expenses related to five foreclosed properties in 2014 compared to two foreclosed properties in 2013. FDIC insurance expense increased by $38,000, or 9.7%, to $430,000 in 2014 from $392,000 in 2013 due to increases in the Company’s assessment base, partially offset by a decrease in the quarterly assessment multiplier from 2013 to 2014.

Provision for Income Taxes. Income taxes increased by $387,000, or 96.8%, to an expense of $787,000 for the year ended December 31, 2014 compared to an expense of $400,000 for the year ended December 31, 2013. The increase resulted primarily from a $947,000 increase in pre-tax income in 2014 compared to 2013. The effective tax rate was an expense of 31.7% for the year ended December 31, 2014 compared to 26.0% for the year ended December 31, 2013. The increase in the effective tax rate between periods was due to a lower percentage of our pre-tax income being tax-exempt, specifically the earnings on bank-owned life insurance, in 2014 compared to 2013.

Risk Management

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

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

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

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

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

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

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

Should a workable plan not be possible, the director of special assets is charged with disposing of the loan as quickly and cost effectively as possible. This may be accomplished through foreclosure, a sale of the note and mortgage or a short sale. In connection with the above, the Company has entered into short-term restructuring agreements with various borrowers.

At December 31, 2014, the Bank had 12 restructured mortgage loans totaling $12.7 million, comprised of four multi-family mortgage loans totaling $3.3 million, one mixed-use loan totaling $877,000, and seven non-residential mortgage loans totaling $8.5 million. Except for one non-residential mortgage loan totaling $448,000 that is non-performing and nonaccrual, each of the remaining 11 restructured loans was performing under the terms of the restructured agreements at December 31, 2014. The restructured terms were generally consistent with market terms.

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At December 31, 2013, the Bank had 14 restructured mortgage loans totaling $16.8 million, comprised of five multi-family mortgage loans totaling $5.5 million, one mixed-use mortgage loan totaling $897,000, and eight non-residential mortgage loans totaling $10.4 million. Except for two non-residential mortgage loans totaling $1.3 million that are non-performing and nonaccrual, each of the remaining twelve restructured loans was performing under the terms of the restructured agreements at December 31, 2013. The restructured terms were generally consistent with market terms.

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

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

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

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

	At December 31,				
	2014	2013	2012	2011	20
	(Dollars in thousands)				
Nonaccrual loans:					
Residential real estate:					
One- to four-family	$—	$—	$—	$—	$-
Multi-family	689	—	1,477	4,229	2
Mixed-use	453	2,210	—	722	–
Non-residential real estate	659	2,372	2,480	6,634	5
Construction	—	—	—	7,661	1
Commercial and industrial	2,555	84	—	—	–
Consumer and other loans	—	—	—	—	–
Total	4,356	4,666	3,957	19,246	1
Accruing loans past due 90 days or more:					
Residential real estate:					
One- to four-family	—	—	—	—	–
Multi-family	—	—	—	1,192	2
Mixed-use	—	—	—	—	–
Non-residential real estate	—	—	—	—	–
Construction	—	—	—	—	–
Commercial and industrial	—	—	—	—	–
Consumer and other loans	—	—	—	—	–
Total	—	—	—	1,192	2
Total non-performing loans	4,356	4,666	3,957	20,438	2
Foreclosed real estate	8,733	3,985	4,271	620	9
Total non-performing assets	13,089	8,651	8,228	21,058	2
Performing troubled debt restructurings	12,263	15,535	12,236	14,039	3
Nonaccrual troubled debt restructurings	448	1,269	1,197	1,435	–
Total troubled debt restructurings	12,711	16,804	13,433	15,474	3
Less nonaccrual troubled debt restructurings in total nonaccrual loans	448	1,269	1,197	1,435	–
Troubled debt restructurings and total non-performing assets	$25,352	$24,186	$20,464	$35,097	$5
Total non-performing loans to total loans	1.02 %	1.26 %	1.17 %	5.72 %	5
Total non-performing assets to total assets	2.54 %	1.89 %	1.85 %	4.30 %	4
Total non-performing assets and troubled debt restructurings to total assets	4.92 %	5.28 %	4.61 %	7.17 %	1

Other than disclosed in the above table and in the classified assets table below, management believes that there are no other loans at December 31, 2014 and December 31, 2013 that we have serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

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The nonaccrual loans at December 31, 2014 consisted of six loans in the aggregate, comprised of one multi-family mortgage loan, one mixed-use mortgage loan, two non-residential mortgage loans, and two commercial and industrial loans. Non-performing loans decreased by $310,000, or 6.6%, to $4.4 million at December 31, 2014 from $4.7 million at December 31, 2013. The decrease was due to the foreclosure and transition into real estate owned of one mixed-use mortgage loan and one non-residential mortgage loan totaling $2.5 million, the satisfaction of one non-residential mortgage loan and two commercial and industrial loans totaling $873,000, and the conversion from non-performing to performing status of one non-residential mortgage loan totaling $824,000. These were offset by the addition of two commercial and industrial loans totaling $2.6 million, one multi-family mortgage loan totaling $689,000, one mixed-use mortgage loan totaling $453,000, and one non-residential mortgage loan totaling $211,000 that became non-performing at December 31, 2014.

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

The one nonaccrual multi-family mortgage loan had an outstanding balance of $689,000 at December 31, 2014 and is secured by a 23 unit apartment building. This loan was classified as substandard at December 31, 2014. The Company has commenced a foreclosure action and the Court has appointed a receiver of rent. We are evaluating the options currently available to us.

The one nonaccrual mixed-use mortgage loan had an outstanding balance of $453,000 at December 31, 2014 and is secured by 11 apartment units and one commercial unit in two buildings on one lot. This loan was classified as substandard at December 31, 2014. The Company subsequently acquired the property as real estate owned via a foreclosure sale on February 25, 2015 and sold the property on March 9, 2015 at a loss of $98,000.

The two nonaccrual non-residential real estate loans, net of charge-offs of $400,000, totaled $659,000 at December 31, 2014 and consisted primarily of the following mortgage loans:

(1) An outstanding balance of $447,000, net of charge-offs of $400,000, secured by a strip shopping center and warehouse. This loan was classified as substandard at December 31, 2014. The property was severely damaged by fire and the Company and borrower are currently suing the insurance company and the borrower's insurance agent as part of the Company's collection efforts. The Court has issued a trial date for July 2015. We are evaluating options available to us.

(2) An outstanding balance of $211,000 secured by a restaurant and seafood market. This loan was classified as substandard as of December 31, 2014. The Company subsequently acquired the property as real estate owned via a foreclosure sale on February 25, 2015. We have begun marketing the property for sale through a local real estate broker.

The two nonaccrual commercial and industrial loans had an aggregate balance of $2.6 million at December 31, 2014, consisting of a line of credit with an outstanding balance of $1.4 million and remaining available line of credit of $76,000 and a term loan with an outstanding balance of $1.2 million. The loans are secured by the assets of a construction company. The Company is working with the borrower and the borrower's surety bonding company to cure the delinquencies and/or satisfy the loans. Based on recent fair value analyses of these properties, the Company does not expect any losses beyond the amounts already charged off.

Interest income that would have been recorded for the year ended December 31, 2014 had non-accruing loans been performing in accordance with their original terms amounted to approximately $220,000. During the year ended December 31, 2014, the Bank recognized interest income of approximately $36,000 on the nonaccrual loans.

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At December 31, 2014, we owned five foreclosed properties with a net balance of $8.7 million consisting of an office building located in Lawrenceville, New Jersey, an office building located in Pittsburgh, Pennsylvania, a mixed-use property located in Peabody, Massachusetts, a building housing auto repair and auto rental facilities located in Brockton, Massachusetts, and a multi-family property located in Bristol, Connecticut. The Bristol, Connecticut property was sold on February 4, 2015. The Brockton, Massachusetts property has a contract of sale that we expect to be completed in the second quarter of 2015. We have been marketing the remaining three properties for sale or rental.

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

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

	At December 31,		
	2014	2013	2012
	(In thousands)		
Special mention assets	$1,550	$5,612	$3,058
Substandard assets	10,440	12,536	13,872
Doubtful and loss assets	—	—	—
Total classified assets	$11,990	$18,148	$16,930

The decrease in classified assets was due to the foreclosure of and transition into real estate owned of one mixed-use mortgage loan and two non-residential mortgage loans totaling $4.6 million, the satisfaction of one non-residential mortgage loan and three commercial and industrial loans totaling $1.6 million, the improvement from non-performing to performing of four commercial and industrial loans totaling $1.6 million, offset by the addition of one multi-family, two mixed-use and one non-residential mortgage loans totaling $1.6 million.

On the basis of management's review of assets, we classified $1.6 million of our assets at December 31, 2014 as special mention compared to $5.6 million classified as special mention at December 31, 2013. In addition, we classified $10.4 million as substandard at December 31, 2014 compared to $12.5 million at December 31, 2013.

The decrease in special mention assets was due to four commercial and industrial loans totaling $1.6 million that were performing, two commercial and industrial loans totaling $2.5 million that were reclassified from special mention to substandard, and three commercial and industrial loans totaling $773,000 that were paid-off, partially offset by one non-residential mortgage loan totaling $815,000 that was reclassified from substandard to special mention and one mixed-use mortgage loan totaling $235,000 that was newly classified as special mention.

The decrease in substandard assets was due to two non-residential and one mixed-use mortgage loans totaling $4.6 million that were foreclosed upon and became real estate owned, one non-residential mortgage loan totaling $824,000 that was brought current and reclassified from substandard to special mention, and one non-residential mortgage loan totaling $789,000 that was paid-off, partially offset by two commercial and industrial loans totaling $2.6 million that were reclassified from special mention to substandard and one multi-family, one mixed-use and one non-residential mortgage loans totaling $1.4 million that were newly classified as substandard.

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The substandard loans at December 31, 2014 consisted of nine loans in the aggregate – one multi-family mortgage loan, one mixed-use mortgage loan, five non-residential mortgage loans, and two commercial and industrial loans. See the nonaccrual loan discussion above for a description of the material nonaccrual loans that are classified as substandard, comprised of the one multi-family substandard mortgage loan, one mixed-use substandard mortgage loan, two of five substandard non-residential mortgage loans, and two substandard commercial and industrial loans.

The three substandard non-residential mortgage loans that were not described in the above-mentioned nonaccrual section consisted of three mortgage loans that were current, had an outstanding balance of $6.1 million, net of charge-offs of $2.4 million, and were secured by a hotel as of December 31, 2014.

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

There were no loans modified that were deemed to be troubled debt restructurings during 2014. As of December 31, 2014, none of the loans that were modified during the previous twelve months had defaulted in 2014. There were no charge-offs of loans classified as troubled debt restructurings during 2014. Additions for the period consist of real estate taxes and similar items paid to protect the collateral position of the Company.

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

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Balance at December 31, 2013	$ 6,419	$ 10,385	$ —	$ —	$ —	$16,804
Additions	3	166	—	—	—	169
Repayments	(62)	(42)	—	—	—	(104)
Amortization of TDR reserves	17	73	—	—	—	90
Loans removed from TDR status	—	—	—	—	—	—
Transferred to REO	(2,151)	(2,097)	—	—	—	(4,248)
Balance at December 31, 2014	$ 4,226	$ 8,485	$ —	$ —	$ —	$12,711
Related allowance	$ —	$ —	$ —	$ —	$ —	$—

There were four loans modified in a troubled debt restructuring during 2013.

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

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

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One non-residential mortgage loan that was modified had an original interest rate of 4.75% with an amortization of 30 years. The Company reduced the interest rate and converted the monthly payments to interest only for nineteen months and then amortizing for 30 years, with a balloon payment after two years from the modification date. This loan was foreclosed upon and became real estate owned in December 2014.

As of December 31, 2013, none of the loans that were modified during the previous twelve months had defaulted in 2013. There were no charge offs of loans classified as troubled debt restructurings during 2013.

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

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

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

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

At December 31,					
2014		2013		2012	
30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due
(In thousands)					

Residential real estate:						
One- to four-family	$—	$ —	$—	$ —	$—	$ —
Multi-family	—	—	—	—	—	89
Mixed-use	—	453	—	2,210	—	—
Non-residential real estate	—	—	—	—	1,259	—
Construction	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer and other loans	—	—	—	—	—	—
Total	$—	$ 453	$—	$ 2,210	$1,259	$ 89

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The delinquent loan at December 31, 2014 consisted of one mixed-use mortgage loan that the Company has classified as nonaccrual and substandard.

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

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

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

At December 31, 2014, our allowance for loan losses was $3.8 million and represented 0.89% of total gross loans. At December 31, 2013, our allowance for loan losses was $4.0 million and represented 1.08% of total gross loans. At December 31, 2012, our allowance for loan losses was $4.6 million and represented 1.38% of total gross loans. The primary reason for the reduction in allowance for loan losses from 2013 to 2014 was due to an improving economy and substantial improvements in the multi-family, mixed-use and non-residential real estate markets in the New York and Massachusetts regions, a decrease in our borrowers requesting assistance through modification of loan terms, and charge-offs of $781,000 against three non-performing multi-family, one non-performing mixed-use, and one non-performing non-residential mortgage loans. This was offset by recoveries of $790,000 from two multi-family mortgage loans and two non-residential mortgage loans.

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

	At December 31, 2014			2013			2012		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential real estate:									
One- to four-family	$33	0.9 %	3.1 %	$29	0.7 %	3.2 %	$19	0.4 %	2.3 %
Multi-family	1,689	44.3	44.1	2,266	56.4	50.9	2,910	62.6	52.8
Mixed-use	301	7.9	14.4	261	6.5	13.6	287	6.2	12.4
Non-residential real estate	692	18.1	19.4	896	22.3	22.1	996	21.5	24.5
Construction	492	12.9	10.9	97	2.4	1.8	—	—	0.2
Commercial and industrial	494	12.9	8.1	456	11.4	8.4	434	9.3	7.8
Consumer	—	—	—	—	—	—	—	—	—
Unallocated	115	3.0	—	10	0.3	—	—	—	—
Total allowance for loan losses	$3,816	100.0	100.0 %	$4,015	100.0 %	100.0 %	$4,646	100.0 %	100.0 %

	At December 31, 2011			2010		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential real estate:						
One- to four-family	$—	— %	0.2 %	$—	— %	0.1 %
Multi-family	3,390	45.8	52.9	3,450	45.1	51.1
Mixed-use	391	5.3	14.3	474	6.2	14.9
Non-residential real estate	1,596	21.6	23.4	1,560	20.4	27.1
Construction	1,724	23.3	2.5	2,083	27.2	3.5
Commercial and industrial	296	4.0	6.7	80	1.1	3.3
Consumer	—	—	—	—	— —	—
Unallocated	—	—	—	—	— —	—
Total allowance for loan losses	$7,397	100.0 %	100.0 %	$7,647	100.0 %	100.0 %

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

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Allowance at beginning of period	$4,015	$4,646	$7,397	$7,647	$6,733
Provision for loan losses	(208)	(554)	5,623	1,113	3,487
Charge offs:					
Residential real estate:					
One- to four-family	—	—	(59)	—	—
Multi-family	(354)	—	(4,035)	(1,358)	(1,211)
Mixed-use	(386)	—	(278)	—	—
Non-residential real estate	(41)	(105)	(2,374)	(17)	(1,407)
Construction	—	—	(1,715)	—	—
Commercial and industrial	—	—	(28)	—	—
Consumer	—	—	—	—	—
Total charge-offs	(781)	(105)	(8,489)	(1,375)	(2,618)
Recoveries:					
Residential real estate:					
One- to four-family	—	—	—	—	—
Multi-family	225	—	115	12	45
Mixed-use	—	24	—	—	—
Non-residential real estate	565	4	—	—	—
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	—	—	—	—	—
Total recoveries	790	28	115	12	45
Net charge-offs	9	(77)	(8,374)	(1,363)	(2,573)
Allowance at end of period	$3,816	$4,015	$4,646	$7,397	$7,647
Allowance to non-performing loans	87.60%	86.05%	117.41%	36.19 %	35.07 %
Allowance to total loans outstanding at the end of the period	0.89 %	1.08 %	1.38 %	2.07 %	2.06 %
Net charge-offs to average loans outstanding during the period	0.00 %	0.03 %	2.37 %	0.37 %	0.67 %

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter

maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our chief executive officer, president, chief financial officer, chief retail banking officer, and three chief lending officers, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Net Portfolio Value Analysis. We use a net portfolio value analysis prepared by an independent third party to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of the portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 100 to 400 basis point increase or 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in the net portfolio value of the Bank at December 31, 2014 that would occur in the event of an immediate change in interest rates based on certain assumptions, with no effect given to any steps that we might take to counteract that change.

	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
400	$105,406	(11,265)	(9.7)%	21.62%	(57) bp
300	108,282	(8,389)	(7.2)	21.82	(37) bp
200	111,884	(4,787)	(4.1)	22.12	(7) bp
100	114,262	(2,409)	(2.1)	22.17	(2) bp
0	116,671			22.19	
(100)	124,058	7,387	6.3	23.09	90 bp

We use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to re-pricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be

reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the FHLB of New York. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

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We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. Cash and cash equivalents totaled $34.0 million at December 31, 2014 and consist primarily of deposits at other financial institutions (predominantly ACBB, the FHLB of New York, and the Federal Reserve Bank of New York) and miscellaneous cash items. Securities classified as available-for-sale provide an additional source of liquidity. Total securities classified as available-for-sale were $40,000 at December 31, 2014 and $113,000 at December 31, 2013.

At December 31, 2014, we had $88.1 million in loan commitments outstanding. At December 31, 2014, this consisted of $34.6 million in unused commercial and industrial loan lines of credit, $32.9 million in construction loans in process, $16.2 million of real estate loan origination commitments, $2.7 million in unused multi-family real estate equity lines of credit, $1.6 million in stand-by letters of credit, and $118,000 in unused consumer lines of credit. Certificates of deposit due within one year of December 31, 2014 totaled $57.8 million. This represented 31.9% of certificates of deposit at December 31, 2014. We believe the large percentage of certificates of deposit that mature within one year reflects customers’ hesitancy to invest their funds for long periods in the current low interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2014. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts. At December 31, 2014, we had the ability to borrow $83.2 million, net of $30.0 million in outstanding advances, from the FHLB of New York. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan and commercial loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

During the quarter ended September 30, 2014, the Company became a member of ACBB in order to provide the Company with an additional source of correspondent services that includes the ability to borrow $8.0 million from ACBB via a line of credit. The Company has thus far not utilized this line of credit.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. The amount of dividends that the Bank may declare and pay to the Company, is subject to the restrictions imposed by New York

State law and FDIC regulation, as previously discussed under "*Regulation and Supervision – Regulation of the Bank – New York State Law*" and *"Regulation and Supervision – FDIC Regulation – Dividend Limitations."* The Company's liquidity may depend, in part, upon its receipt of dividends from the Bank because the Company has no source of income other than earnings from the investment of the net proceeds from its initial public offering and interest on the loans it has purchased. The Company's purchase of loan participations during the fourth quarter of 2014 reduced the Company's liquidity by $1.5 million. At December 31, 2014, the Company had liquid assets of $9.9 million.

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The following table presents our primary investing and financing activities during the periods indicated.

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Investing activities:			
Loans disbursed or closed	$(167,331)	$(90,593)	$(72,303)
Loan principal repayments and charge-offs	111,877	57,091	83,579
Proceeds from maturities and principal repayments of securities	1,955	3,493	4,052
Purchases of securities	—	—	—
Purchases of certificates of deposit	—	(1,992)	—
Maturities of certificates of deposit	1,992	249	2,241
Purchase of bank owned life insurance	—	—	(2,500)
Proceeds from sale of premises and equipment	—	32	—
Purchases of premises and equipment	(178)	(138)	(4,103)
Financing activities:			
Increase (decrease) in deposits	48,843	7,089	(35,516)
Proceeds from FHLB-NY advances	25,001	16,000	—
Repayment of FHLB-NY advances	(16,001)	(10,000)	(5,000)

Capital Management. We are subject to various regulatory capital requirements administered by the NYDFS, the FDIC and the Federal Reserve, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2014, we exceeded all of our regulatory capital requirements. We are considered "well capitalized" under regulatory guidelines.

The capital from our initial public offering increased our liquidity and capital resources. In addition, the sale of our First Avenue branch office building in the second quarter of 2007 further increased our capital in 2007. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering and the sale of the branch office building are used for general corporate purposes, including the funding of lending activities. Our financial condition has been enhanced by the capital from the offering, resulting in increased net interest-earning assets. However, the large increase in equity resulting from the capital raised in the offering and the branch office building sale will, initially, have an adverse impact on our return on equity. From time to time, we may consider capital management tools such as cash dividends and common stock repurchases.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see Note 4 of the Notes to the Consolidated Financial Statements. We currently have no plans to engage in hedging activities in the future.

For the years ended December 31, 2014 and 2013, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our consolidated financial condition, results of operations or cash flows.

Effect of Inflation and Changing Prices

The financial statements and related financial data presented in this Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included herein beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On August 12, 2013, the Company dismissed ParenteBeard LLC as its independent certifying accountant. The Audit Committee of the Company's Board of Directors approved the dismissal. For information concerning the change in the Company's independent registered public accounting firm, the information contained under the section captioned "Item 2 – Ratification of the Independent Registered Public Accounting Firm" in Northeast Community Bancorp's Proxy Statement for the 2014 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

The reports of ParenteBeard LLC on the consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2011 and December 31, 2012 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the two most recent fiscal years ended December 31, 2012 and 2011 and through the subsequent interim period preceding August 12, 2013, there were: (1) no disagreements between the Company and ParenteBeard LLC on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of ParenteBeard LLC would have caused them to make reference thereto in their reports on the Company's financial statements for such years, and (2) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K.

On August 13, 2013, the Company engaged BDO USA, LLP its independent certifiying accountant. The Audit Committee of the Company's Board of Directors approved the engagement.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Controls Over Financial Reporting

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Management's annual report on internal control over financial reporting is incorporated herein by reference to the Company's audited Consolidated Financial Statements in this Annual Report on Form 10-K.

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2014 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

For information concerning Northeast Community Bancorp's directors, the information contained under the section captioned *"Item 1—Election of Directors"* in the Proxy Statement is incorporated herein by reference.

Executive Officers

For information relating to officers of Northeast Community Bancorp, the section captioned *"Item 1—Election of Directors"* in the Proxy Statement, and Part I, Item 1, *"Business—Executive Officers of the Registrant"* in this Annual Report on Form 10-K, are incorporated by reference.

Compliance with Section 16(a) of the Exchange Act

For information regarding compliance with Section 16(a) of the Exchange Act, the information contained under the section captioned *"Section 16(a) Beneficial Ownership Reporting Compliance"* in the Proxy Statement is incorporated herein by reference.

Disclosure of Code of Ethics

Northeast Community Bancorp has adopted a Code of Ethics and Business Conduct, a copy of which can be found in the investor relations section of the Company's website at www.necommunitybank.com.

Corporate Governance

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned *“Corporate Governance and Board Matters”* in the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive compensation is set forth under the section captioned *“Executive Compensation”* in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned *“Stock Ownership”* in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned *“Stock Ownership”* in the Proxy Statement.

(c) Changes in Control

Management of Northeast Community Bancorp knows of no arrangements, including any pledge by any person or securities of Northeast Community Bancorp, the operation of which may at a subsequent date result in a change in control of the registrant.

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(d) Equity Compensation Plan Information

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information relating to certain relationships and related transactions and director independence is set forth under the sections captioned *"Transactions with Related Persons"* and *"Corporate Governance and Board Matters – Director Independence"* in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information relating to the principal accountant fees and services is set forth under the section captioned *"Ratification of the Independent Registered Public Accounting Firm"* in the Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3)	Exhibits
3.1	Amended and Restated Charter of Northeast Community Bancorp, Inc. (1)
3.2	Amended and Restated Bylaws of Northeast Community Bancorp, Inc. (2)
4.1	Specimen Stock Certificate of Northeast Community Bancorp, Inc. (1)
10.1	Northeast Community Bank Employee Severance Compensation Plan (1)
10.2	Northeast Community Bancorp, Inc. Employment Agreement for Kenneth A. Martinek (1)*
10.3	Northeast Community Bank Employment Agreement for Kenneth A. Martinek (1)*
10.4	Northeast Community Bank Directors' Retirement Plan (1)*
10.5	Northeast Community Bank Directors' Deferred Compensation Plan (1)*
10.6	Northeast Community Bank Executive Incentive Deferral Plan (3)*
10.7	Northeast Community Bank Supplemental Executive Retirement Plan, as amended, and Participation Agreement with Kenneth A. Martinek (4)*
10.8	Participation Agreement under the Northeast Community Bank Supplemental Executive Retirement Plan for Jose M. Collazo* (5)
10.9	Northeast Community Bancorp, Inc. Employment Agreement for Jose M. Collazo* (6)
10.10	Northeast Community Bank Employment Agreement for Jose M. Collazo* (7)
21.0	List of Subsidiaries
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101.0	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Management contract or compensatory plan, contract or arrangement.

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, initially filed with the SEC on March 12, 2006.

(2) Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 29, 2015.

(3)

Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

(4) Incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

(5) Incorporated here by reference to Exhibit 10.1 of the Company's Quarter Report on Form 10-Q/A for the quarter ended June 30, 2012.

(6) Incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

(7) Incorporated herein by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NORTHEAST COMMUNITY BANCORP, INC.

Date: March 31, 2015	By:	/s/ Kenneth A. Martinek Kenneth A. Martinek Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Kenneth A. Martinek Kenneth A. Martinek	Chief Executive Officer and Director (principal executive officer)	March 31, 2015
/s/ Jose M. Collazo Jose M. Collazo	President, Chief Operating Officer and Director	March 31, 2015
/s/ Donald S. Hom Donald S. Hom	Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	March 31, 2015
/s/ Diane B. Cavanaugh Diane B. Cavanaugh	Director	March 31, 2015
/s/ Arthur M. Levine Arthur M. Levine	Director	March 31, 2015

/s/ Eugene M. Magier Eugene M. Magier	Director	March 31, 2015
/s/ Charles A. Martinek Charles A. Martinek	Director	March 31, 2015
/s/ John F. McKenzie John F. McKenzie	Director	March 31, 2015
/s/ Linda M. Swan Linda M. Swan	Director	March 31, 2015
/s/ Kenneth H. Thomas Kenneth H. Thomas	Director	March 31, 2015

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Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, utilizing the 1992 framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2014 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our independent registered public accounting firm, BDO USA, LLP, is not required to issue an opinion on our internal control over financial reporting.

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Northeast Community Bancorp, Inc.

Consolidated Financial Report

December 31, 2014

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Northeast Community Bancorp, Inc.

We have audited the accompanying consolidated statements of financial condition of Northeast Community Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Community Bancorp, Inc. and Subsidiary at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

New York, New York
March 31, 2015

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Northeast Community Bancorp, Inc.

Consolidated Statements of Financial Condition

	December 31, 2014	2013
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and amounts due from depository institutions	$ 3,676	$ 3,794
Interest-bearing deposits	30,334	27,737
Cash and cash equivalents	34,010	31,531
Certificates of deposit	150	2,142
Securities available-for-sale	40	113
Securities held-to-maturity (fair value of $6,805 and $8,739, respectively)	6,595	8,444
Loans receivable, net of allowance for loan losses of $3,816 and $4,015 respectively	423,445	367,825
Premises and equipment, net	11,718	12,234
Investments in restricted stock, at cost	1,933	1,594
Bank owned life insurance	21,113	20,490
Accrued interest receivable	1,453	1,267
Goodwill	749	749
Other intangible assets	284	345
Real estate owned	8,733	3,985
Other assets	5,202	7,506
Total assets	$ 515,425	$ 458,225
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 37,088	$ 28,310
Interest bearing	336,964	296,899
Total deposits	374,052	325,209
Advance payments by borrowers for taxes and insurance	3,338	3,987
Federal Home Loan Bank advances	30,000	21,000
Accounts payable and accrued expenses	4,225	3,861
Total liabilities	411,615	354,057
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 12,331,202 and 12,566,952 shares, respectively	132	132
Additional paid-in capital	57,007	57,083
Unearned Employee Stock Ownership Plan ("ESOP") shares	(2,851)	(3,111)
Retained earnings	55,548	54,428
Treasury stock – at cost, 893,798 and 658,048 shares, respectively	(5,999)	(4,291)
Accumulated other comprehensive loss	(27)	(73)
Total stockholders' equity	103,810	104,168
Total liabilities and stockholders' equity	$ 515,425	$ 458,225

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Operations

	Years Ended December 31,	
	2014	2013
	(In thousands, except per share amounts)	
INTEREST INCOME:		
Loans	$ 19,636	$ 18,210
Interest-earning deposits	30	13
Securities – taxable	282	329
Total Interest Income	19,948	18,552
INTEREST EXPENSE:		
Deposits	3,287	2,951
Borrowings	157	241
Total Interest Expense	3,444	3,192
Net Interest Income	16,504	15,360
CREDIT FOR LOAN LOSSES	(208)	(554)
Net Interest Income after Credit for Loan Losses	16,712	15,914
NON-INTEREST INCOME:		
Other loan fees and service charges	463	601
Loss on disposition of equipment	—	(1)
Earnings on bank owned life insurance	623	638
Investment advisory fees	779	729
Other	24	22
Total Non-Interest Income	1,889	1,989
NON-INTEREST EXPENSES:		
Salaries and employee benefits	8,658	8,224
Occupancy expense	1,381	1,469
Equipment	526	637
Outside data processing	1,109	1,046
Advertising	42	59
Impairment loss on goodwill	—	334
Real estate owned expense	486	425
FDIC insurance premiums	430	392
Other	3,485	3,780
Total Non-Interest Expenses	16,117	16,366
INCOME BEFORE PROVISION FOR INCOME TAXES	2,484	1,537
PROVISION FOR INCOME TAXES	787	400
NET INCOME	$ 1,697	$ 1,137
NET INCOME PER COMMON SHARE - BASIC AND DILUTED	$ 0.14	$ 0.09

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	12,112	12,316
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.12	$ 0.12

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2014	2013
	(In thousands)	
Net Income	$ 1,697	$ 1,137
Other comprehensive income:		
Unrealized loss on securities available-for-sale arising during the year	(2)	(1)
Defined benefit pension:		
Reclassification adjustments out of accumulated other comprehensive loss:		
Amortization of prior service cost (1)	21	21
Amortization of actuarial (gain) loss (1)	(2)	36
Actuarial gains arising during period	59	275
Total	76	331
Income tax expense (2)	(30)	(132)
Total other comprehensive income	46	199
Total Comprehensive Income	$ 1,743	$ 1,336

(1) Amounts are included in salaries and employees benefits in the audited consolidated statements of operations as part of net periodic pension cost. See Note 15 for further information.

(2) Amounts are included in provision for income taxes in the audited consolidated statements of operations.

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	(In thousands, except share and per share amounts)						
Balance - January 1, 2013	$132	$57,178	$(3,370)	$53,893	$(3,712)	$(272)	$103,849
Net income	—	—	—	1,137	—	—	1,137
Other comprehensive income	—	—	—	—	—	199	199
Purchase of 77,800 shares of treasury stock treasury stock	—	—	—	—	(579)	—	(579)
Cash dividend declared ($0.12 per share)	—	—	—	(602)	—	—	(602)
ESOP shares earned	—	(95)	259	—	—	—	164
Balance - December 31, 2013	$132	$57,083	$(3,111)	$54,428	$(4,291)	$(73)	$104,168
Net income	—	—	—	1,697	—	—	1,697
Other comprehensive income	—	—	—	—	—	46	46
Purchase of 235,750 shares of treasury stock treasury stock	—	—	—	—	(1,708)	—	(1,708)
Cash dividend declared ($0.12 per share)	—	—	—	(577)	—	—	(577)
ESOP shares earned	—	(76)	260	—	—	—	184
Balance - December 31, 2014	$132	$57,007	$(2,851)	$55,548	$(5,999)	$(27)	$103,810

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2014	2013
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	$1,697	$1,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (accretion) amortization of securities premiums and discounts, net	(35)	66
Credit for loan losses	(208)	(554)
Depreciation	694	756
Impairment loss on goodwill	—	334
Net amortization of deferred loan fees and costs	144	142
Amortization of intangible assets	61	61
Deferred income tax expense	73	211
Loss on sale of real estate owned	—	51
Earnings on bank owned life insurance	(623)	(638)
Loss on dispositions of premises and equipment	—	1
ESOP compensation expense	184	164
Increase in accrued interest receivable	(186)	(291)
Decrease (increase) in other assets	2,201	(10)
Increase in accounts payable and accrued expenses	447	304
Net Cash Provided by Operating Activities	4,449	1,734
Cash Flows from Investing Activities:		
Net increase in loans	(62,342)	(33,626)
Principal repayments on securities available-for-sale	71	16
Principal repayments on securities held-to-maturity	1,884	3,477
Proceeds from maturities of certificates of deposit	1,992	249
Purchases of certificates of deposit	—	(1,992)
Proceeds from sale of real estate owned	2,100	399
Capitalized cost on real estate owned	(62)	(164)
Net purchases of FHLB of NY stock	(339)	(239)
Purchases of premises and equipment	(178)	(138)
Dispositions of premises and equipment	—	45
Net Cash Used in Investing Activities	(56,874)	(31,973)
Cash Flows from Financing Activities:		
Net increase in deposits	48,843	7,089
Proceeds from FHLB of NY advances	25,001	16,000
Repayment of FHLB of NY advances	(16,001)	(10,000)
Purchase of treasury stock	(1,708)	(579)
(Decrease) increase in advance payments by borrowers for taxes and insurance	(649)	471
Cash dividends paid	(582)	(453)
Net Cash Provided by Financing Activities	54,904	12,528
Net Increase (Decrease) in Cash and Cash Equivalents	2,479	(17,711)

Cash and Cash Equivalents - Beginning	31,531	49,242
Cash and Cash Equivalents - Ending	$34,010	$31,531

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows (Continued)

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Supplementary Cash Flows Information:		
Income taxes (refunded) paid	$ (1,506)	$ 200
Interest paid	$ 3,444	$ 3,193
Supplementary Disclosure of Non-Cash Investing and Financing Activities:		
Loans receivable transferred to real estate owned	$ 6,786	$ —
Dividends declared and not paid	$ 143	$ 149

See notes to consolidated financial statements.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

The following is a description of the Company's business and significant accounting and reporting policies:

Nature of Business

Northeast Community Bancorp, Inc. (the "Company") is a Federally-chartered corporation that was organized to be a mid-tier holding company for Northeast Community Bank (the "Bank") in conjunction with the Bank's reorganization from a mutual savings bank to a mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The Company's primary activity is the ownership and operation of the Bank.

The Bank is principally engaged in the business of attracting deposits and investing those funds into mortgage and commercial loans. When demand for loans is low, the Bank invests in debt securities. Currently the Bank conducts banking operations from its headquarters in White Plains, New York, its four full service branches in New York City, New York, its four full service branches in the Boston, Massachusetts suburban area, and its loan production offices in Massachusetts and New York, gathering deposits and lending from Pittsburgh, Pennsylvania to southern New Hampshire.

The Bank also offers investment advisory and financial planning services under the name Hayden Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

New England Commercial Properties LLC ("NECP"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. New England Commercial Properties, LLC currently owns six foreclosed properties located in Connecticut, Massachusetts, New Jersey, and Pennsylvania.

NECB Financial Services Group, LLC ("NECB Financial"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in the third quarter of 2012 as a complement to Hayden Wealth Management Group. NECB Financial has not conducted any business.

The consolidated financial statements include the accounts of the Company, the Bank, NECP, and NECB Financial (collectively the "Company") and have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant inter-company accounts and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates.

The most significant estimate pertains to the allowance for loan losses. The borrowers' abilities to meet contractual obligations and collateral value are the most significant assumptions used to arrive at the estimate. The risks associated with such estimates arise when unforeseen conditions affect the borrowers' abilities to meet the contractual

obligations of the loan and result in a decline in the value of the supporting collateral. Such unforeseen changes may have an adverse effect on the consolidated results of operations and financial position of the Company.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Additionally, the Company is exposed to significant changes in market interest rates. Such changes could have an adverse effect on consolidated earnings and consolidated financial position, particularly in those situations in which the maturities or re-pricing of assets are different than the maturities or re-pricing of the supporting liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits in other banks, all with original maturities of three months or less.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Certificates of Deposit

Certificates of deposit are carried at cost which approximates fair value and have maturities of less than one year.

Securities

The Company is required to classify its securities among three categories: held to maturity, trading, and available for sale. Management determines the appropriate classification at the time of purchase. Held to maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost (unless there is other than temporary impairment). Trading securities are those debt and equity securities which are bought and held principally for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses included in earnings. Available for sale securities are those debt and equity securities which are neither held to maturity securities nor trading securities and are reported at fair value, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders' equity. The Company did not have trading securities in its portfolio during 2014 or 2013.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are temporary or other-than-temporary. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income (loss) ("OCI") with offsetting adjustments to the carrying value of the security and the balance of related deferred taxes. Temporary impairments on held to maturity securities are not recorded in the consolidated financial statements; however, information concerning the amount and duration of unrealized losses on held to maturity securities is disclosed.

Other-than-temporary impairments on debt securities that the Company has decided to sell, or will, more likely than not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If either of these conditions regarding the likelihood of sale apply for a debt security, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. Credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related other-than-temporary impairments in earnings. Noncredit-related other-than-temporary impairments on debt securities are recognized in OCI. Premiums and discounts on all securities are amortized/accreted to maturity by use of the level-yield method. Gain or loss on sales of securities is based on the specific identification method.

Loans

Loans are stated at unpaid principal balances plus net deferred loan origination fees and costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual

principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured and in the process of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms. Net loan origination fees and costs are deferred and amortized into income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Risk characteristics associated with the types of loans we underwrite are as follows:

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

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

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty and costs of monitoring the loan; and (2) the increased difficulty of working out loan problems. We have sought to minimize this risk by limiting the amount of construction loans outstanding at any time and by spreading the loans among multi-family, mixed-use and non-residential projects.

Consumer Loans. We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans represent a significant risk of loss to the Company.

The allowance consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The Company does not evaluate individual 1-4 family residential real estate and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or discounted cash flows.

For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in policies and procedures in underwriting standards and collections.
2. Changes in economic conditions.
3. Changes in nature and volume of lending.
4. Experience of origination team.
5. Changes in past due loan volume and severity of classified assets.

6. Quality of loan review system.
7. Collateral values in general throughout lending territory.
8. Concentrations of credit.
9. Competition, legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.

Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status,

size of loans, type of collateral and financial condition of the borrowers.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date at a below market rate. Adversely classified, non-accrual troubled debt restructurings may be returned to accrued status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All troubled debt restructured loans are classified as impaired.

Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is appropriate as of December 31, 2014.

Concentration of Risk

The Company's lending activity is concentrated in loans secured by multi-family and non-residential real estate located primarily in the Northeast and Mid-Atlantic regions of the United States. The Company also had deposits in excess of the FDIC insurance limit at other financial institutions. At December 31, 2014, such deposits totaled $18.0 million held by Atlantic Community Bankers Bank, $8.9 million held by the Federal Home Loan Bank of New York, and $3.4 million held by the Federal Reserve Bank of New York. Generally, deposits in excess of $250,000 are not insured by the FDIC.

Premises and Equipment

Land is stated at cost. Buildings and improvements, leasehold improvements and furnishings and equipment are stated at cost less accumulated depreciation and amortization computed on the straight-line method over the following useful lives:

	Years
Buildings	30 - 50
Building improvements	10 - 50
Leasehold improvements	1 - 15
Furnishings and equipment	3 - 5

Maintenance and repairs are charged to operations in the years incurred.

Bank Owned Life Insurance ("BOLI")

The Company owns life insurance on the lives of certain of its officers. The cash surrender value is recorded as an asset and the change in cash surrender value is included in non-interest income and is tax-exempt. The BOLI can be liquidated, if necessary, with tax consequences. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Investments in Restricted Stock

Federal law requires a member institution of the Federal Home Loan Bank ("FHLB") system to hold stock of its district FHLB according to a predetermined formula. The Company also owns restricted stock in Atlantic Community Bankers Bank ("ACBB"), a correspondent banker's bank. These stocks are carried at cost.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill at both December 31, 2014 and 2013, totaled $749,000 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit's goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded in 2014 and impairment charges of $334,000 were recorded for the years ended December 31, 2013. The impairments were caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel.

Other Intangible Assets

Other intangible assets at December 31, 2014 and 2013, totaled $284,000 and $345,000, respectively, and consist of the value of customer relationships acquired in a business combination completed by the Company in November 2007. The Company is amortizing these assets, using the straight-line method, over the remaining useful life of 11.7 years. Amortization expense is included in other non-interest expenses. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset's remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. The Company reviews intangible assets subject to amortization for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. If intangible assets are found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value. No impairment charges were recorded in 2014 or 2013.

Real Estate Owned

Real estate owned is carried at the lower of cost or fair value of the related property, as determined by current appraisals less estimated costs to sell. Foreclosed real estate is initially recorded at the fair value of property acquired minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Write-downs on these properties, which occur after the initial transfer from the loan portfolio, are recorded as operating expenses. Costs of holding such properties are charged to expense in the current period. Gains, to the extent allowable, and losses on the disposition of

these properties are reflected in current operations.

Income Taxes

The Company files a consolidated federal income tax return. Income taxes are allocated to the Company, Bank, NECP, and NECB Financial based upon their respective income or loss included in the consolidated income tax return. The Company, the Bank, NECP, and NECB Financial file combined or separate state and city income tax returns depending on the particular requirements of each jurisdiction.

Federal, state and city income tax expense has been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset, which is not more likely than not to be realized.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Company accounts for uncertainty in income taxes recognized in its consolidated financial statements in accordance with ASC Topic 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2014 and 2013, and has not recognized any liabilities for tax uncertainties as of December 31, 2014 and 2013. The Company's policy is to recognize income tax related interest and penalties in income tax expense; such amounts were not significant during the years ended December 31, 2014 and 2013. The tax years subject to examination by federal, state, and city taxing authorities are 2011 through 2014.

Other Comprehensive Income (Loss)

The Company records in accumulated other comprehensive income (loss), net of related deferred income taxes, unrealized gains and losses on available for sale securities and the prior service cost and actuarial gains and losses related to the Outside Directors Retirement Plan ("DRP") that have not yet been recognized in expense.

Gains and losses on the sale of securities, if any, are reclassified to non-interest income upon the sale of the related securities or upon the recognition of a security impairment loss and a portion of the prior service cost and actuarial gains and losses of the DRP are reclassified to non-interest expense.

At December 31, 2014, accumulated other comprehensive loss totaled $27,000 and included $48,000 in prior service cost and actuarial losses of the DRP net of $21,000 of related deferred income taxes. At December 31, 2013, accumulated other comprehensive loss totaled $73,000 and included $2,000 of unrealized gains on available for sale securities net of $1,000 of related deferred income taxes and $126,000 in prior service cost and actuarial losses of the DRP net of $52,000 of related deferred income taxes.

Net Income Per Common Share

Basic net income per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating basic net income per common share until they are committed to be released. There were no dilutive common share equivalents at December 31, 2014 or 2013.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated statement of financial condition when funded.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 2 – Mutual Holding Company Reorganization and Regulatory Matters

On July 5, 2006, the Bank reorganized from a mutual savings bank to a mutual holding company structure. In the reorganization, the Company sold 5,951,250 shares of its common stock to the public and issued 7,273,750 shares of its common stock to Northeast Community Bancorp, MHC (“MHC”).

The MHC, which owned 59.0% of the Company’s common stock as of December 31, 2014, must hold at least 50.1% of the Company’s stock so long as the MHC exists.

Due to the conversion of the Bank to a New York State-chartered savings bank on June 29, 2012, the Federal Deposit Insurance Corporation (“FDIC”) and the New York State Department of Financial Services (“NYS”) are now the Bank’s primary regulator replacing the OCC. The FDIC regulations impose limitations upon all capital distributions, including cash dividends, by savings institutions such as the Bank. Under these regulations, an application to and a prior approval of the FDIC are required before any capital distribution if (1) the institution does not meet the criteria for “expedited treatment” of applications under FDIC regulations; (2) total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years; (3) the institution would be undercapitalized following the distribution; or (4) the distribution would otherwise be contrary to statute, regulation or agreement with the FDIC. If an application is not required, the Bank would still be required to provide the FDIC with prior notification. The Company’s ability to pay dividends, should any be declared, may depend on the ability of the Bank to pay dividends to the Company.

The Federal Reserve Board, as regulatory agency for the MHC, has adopted regulations which require the MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the regulations also require that the MHC obtain the approval of a majority of the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. Northeast Community Bancorp, MHC has waived receipt of all dividends from Northeast Community Bancorp in prior years, except in 2012 when Northeast Community Bancorp, MHC received $218,000 in dividends from Northeast Community Bancorp.

Dividends declared by the Company in 2014 and 2013 and waived by the MHC totaled approximately $873,000 and $873,000, respectively. As of December 31, 2014, total dividends waived by the MHC aggregated $6,110,000.

The Bank is required to maintain certain levels of capital in accordance with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), FDIC, and NYS regulations. Under these capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Under the FDIC regulations, the Bank must have: (1) tangible capital equal to 1.5% of tangible assets, (2) core capital equal 3% of tangible assets, and (3) total (risk-based) capital equal to 8% of risk-weighted assets. Tangible capital consists generally of stockholders' equity less most intangible assets. Core capital consists of tangible capital plus certain intangible assets such as qualifying purchased mortgage-servicing rights. Risk-based capital consists of core capital plus the general allowance for loan losses.

Under the prompt corrective action rule issued by the federal banking authorities, an institution must have a leverage ratio of 4% or greater, a tier 1 capital ratio of 4% or greater and a total risk-based capital ratio of 8% or greater in order to be considered adequately capitalized. The Bank was in compliance with these requirements at December 31, 2014.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 2 – Mutual Holding Company Reorganization and Regulatory Matters (Continued)

The following table presents information about the Bank’s capital levels at the dates presented:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of December 31, 2014:						
Total capital (to risk-weighted assets)	$87,572	22.82%	$ ≥30,694	≥8.00%	$ ≥38,368	≥10.00 %
Tier 1 capital (to risk-weighted assets)	83,756	21.83	≥15,347	≥4.00	≥23,021	≥ 6.00
Core (Tier 1) capital (to adjusted total assets)	83,756	16.79	≥19,954	≥4.00	≥24,943	≥ 5.00
Tangible capital (to adjusted total assets)	83,756	16.79	≥ 7,483	≥1.50	≥ —	≥ —
As of December 31, 2013:						
Total capital (to risk-weighted assets)	$83,496	24.17%	$ ≥27,638	≥8.00%	$ ≥34,547	≥10.00 %
Tier 1 capital (to risk-weighted assets)	79,481	23.01	≥13,819	≥4.00	≥20,728	≥ 6.00
Core (Tier 1) capital (to adjusted total assets)	79,481	18.05	≥17,610	≥4.00	≥22,013	≥ 5.00
Tangible capital (to adjusted total assets)	79,481	18.05	≥ 6,604	≥1.50	≥ —	≥ —

Based on the most recent notification by the FDIC, the Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. There have been no conditions or events that have occurred since notification that management believes have changed the Bank’s category.

In July 2013, the FDIC approved new rules on regulatory capital applicable to banks, implementing Basel III. Most banking organizations were required to apply the new capital rules on January 1, 2015. The final rules set a new common equity tier 1 requirement and higher minimum tier 1 requirements for all banking organizations. The rules also place limits on capital distributions and certain discretionary bonus payments if a banking organization does not maintain a buffer of common equity tier 1 capital above minimum capital requirements. The rules revise the prompt corrective action framework to incorporate the new regulatory capital minimums. The rules also enhance risk sensitivity and address weaknesses identified over recent years with the measure of risk-weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with section 939A of the Dodd-Frank Act. Based on our capital levels and balance sheet composition at December 31, 2014, we believe implementation of the new rules will not have a material impact on our capital needs.

Note 3 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 3 - Financial Instruments with Off-Balance Sheet Risk (Continued)

	December 31,	
	2014	2013
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$16,188	$22,142
Construction loans in process	32,917	10,643
Stand-by letters of credit	1,583	193
Commitments to fund unused lines of credit:		
Commercial and industrial lines	34,600	30,054
Multi-family real estate equity lines	2,686	5,011
Consumer lines	118	131
	$88,092	$68,174

Commitments to extend credit are legally binding agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the borrower.

Note 4 - Securities Available for Sale

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$34	$ 1	$ —	$ 35
Federal National Mortgage Association	5	—	—	5
	$39	$ 1	$ —	$ 40

December 31, 2013
(In Thousands)

Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	$63	$2	$—	$65
Federal National Mortgage Association	47	1	—	48
	$110	$3	$—	$113

There were no sales of securities available for sale during the years ended December 31, 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 4 - Securities Available for Sale (Continued)

Contractual final maturities of mortgage-backed securities were as follows:

	December 31, 2014	
	Amortized Cost	**Fair Value**
	(In Thousands)	
Due after five but within ten years	$ 6	$ 6
Due after ten years	33	34
	$ 39	$ 40

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

Note 5 - Securities Held to Maturity

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities - residential:				
Government National Mortgage Association	$5,065	$ 159	$ —	$ 5,224
Federal Home Loan Mortgage Corporation	186	6	—	192
Federal National Mortgage Association	128	3	—	131
Collateralized mortgage obligations - GSE	1,216	42	—	1,258
	$6,595	$ 210	$ —	$ 6,805

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

Government National Mortgage Association	$6,426	$ 215	$ —	$ 6,641
Federal Home Loan Mortgage Corporation	238	7	—	245
Federal National Mortgage Association	155	6	—	161
Collateralized mortgage obligations - GSE	1,624	67	—	1,691
Other	1	—	—	1
	$8,444	$ 295	$ —	$ 8,739

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 5 - Securities Held to Maturity (Continued)

Contractual final maturities of mortgage-backed securities were as follows at December 31, 2014:

	2014	
	Amortized Cost	Fair Value
	(In Thousands)	
Due after one but within five years	$67	$ 69
Due after five but within ten years	156	159
Due after ten years	6,372	6,577
	$6,595	$ 6,805

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations.

Note 6 - Loans Receivable and the Allowance for Loan Losses

	December 31,	
	2014	2013
	(In Thousands)	
Residential real estate:		
One-to-four family	$13,314	$11,752
Multi-family	188,017	188,923
Mixed-use	61,546	50,467
Total residential real estate	262,877	251,142
Non-residential real estate	82,622	81,985
Construction	46,607	6,568
Commercial and industrial	34,407	31,345
Consumer	142	161
Total Loans	426,655	371,201
Allowance for loan losses	(3,816)	(4,015)
Deferred loan costs, net	606	639
	$423,445	$367,825

Loans serviced for the benefit of others totaled approximately $6,506,000 and $6,623,000 at December 31, 2014 and 2013, respectively. The value of mortgage servicing rights was not material at December 31, 2014 and 2013.

The Company had no loans to related parties at December 31, 2014 and 2013. In addition, the Company did not originate any loans to related parties in 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2014:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	$2,556	$896	$97	$456	$—	$10	$4,015
Charge-offs	(740)	(41)	—	—	—	—	(781)
Recoveries	225	565	—	—	—	—	790
Provision (Credit)	(18)	(728)	395	38	—	105	(208)
Ending balance	$2,023	$692	$492	$494	$—	$115	$3,816
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—
Ending balance: collectively evaluated for impairment	$2,023	$692	$492	$494	$—	$115	$3,816
Loans receivable:							
Ending balance	$262,877	$82,622	$46,607	$34,407	$142	$—	$426,655
Ending balance: individually evaluated for impairment	$5,367	$8,697	$—	$2,555	$—	$—	$16,619
Ending balance: collectively evaluated for impairment	$257,510	$73,925	$46,607	$31,852	$142	$—	$410,036

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2013:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	$3,216	$996	$—	$434	$—	$—	$4,646
Charge-offs	—	(105)	—	—	—	—	(105)
Recoveries	24	4	—	—	—	—	28
Provision (Credit)	(684)	1	97	22	—	10	(554)
Ending balance	$2,556	$896	$97	$456	$—	$10	$4,015
Ending balance: individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—
Ending balance: collectively evaluated for impairment	$2,556	$896	$97	$456	$—	$10	$4,015
Loan receivables:							
Ending balance	$251,142	$81,985	$6,568	$31,345	$161	$—	$371,201
Ending balance: individually evaluated for impairment	$8,629	$11,488	$—	$—	$—	$—	$20,117
Ending balance: collectively evaluated for impairment	$242,513	$70,497	$6,568	$31,345	$161	$—	$351,084

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of our impaired loans.

As of and for the Year Ended December 31, 2014:

2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	$5,367	$ 5,709	$ —	$ 7,846	$ 205
Non-residential real estate	8,697	11,714	—	10,766	397
Commercial and industrial	2,555	2,555	—	1,521	—
	16,619	19,978	—	20,133	602
With an allowance recorded	—	—	—	—	—
Total:					
Residential real estate-Multi-family	5,367	5,709	—	7,846	205
Non-residential	8,697	11,714	—	10,766	397
Commercial and industrial	2,555	2,555	—	1,521	—
	$16,619	$ 19,978	$ —	$ 20,133	$ 602

As of and for the Year Ended December 31, 2013:

2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	$8,629	$ 9,259	$ —	$ 9,507	$ 469
Non-residential real estate	11,488	14,739	—	10,748	87

Commercial and industrial	—	—	—	1,167	49
	20,117	23,998	—	21,422	605
With an allowance recorded	—	—	—	—	—
Total:					
Residential real estate-Multi-family	8,629	9,259	—	9,507	469
Non-residential	11,488	14,739	—	10,748	87
Commercial and industrial	—	—	—	1,167	49
	$20,117	$23,998	$ —	$ 21,422	$ 605

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following table sets forth the composition of our nonaccrual loans at the dates indicated.

Loans Receivable on Nonaccrual Status as of December 31:

	2014	2013
	(In Thousands)	
Residential real estate:		
Multi-family	$689	$—
Mixed-use	453	2,210
Non-residential real estate	659	2,372
Commercial and industrial loans	2,555	84
	$4,356	$4,666

During the years ended December 31, 2014 and 2013, the Company recognized interest income of approximately $36,000 and $98,000, respectively, on the non-accrual loans. Interest income that would have been recorded had the loans been on the accrual status would have amounted to approximately $220,000 and $253,000 for the years ended December 31, 2014 and 2013, respectively. The Company is not committed to lend additional funds to borrowers whose loans have been placed on the non-accrual status.

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

Age Analysis of Past Due Loans as of December 31, 2014:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	$—	$ —	$ —	$ —	$13,314	$ 13,314	$ —

Multi-family	—	—	689	689	187,328	188,017	—
Mixed-use	—	453	—	453	61,093	61,546	—
Non-residential real estate	—	—	659	659	81,963	82,622	—
Construction loans	—	—	—	—	46,607	46,607	—
Commercial and industrial loans	—	—	2,555	2,555	31,852	34,407	—
Consumer	—	—	—	—	142	142	—
	$—	$ 453	$ 3,903	$ 4,356	$422,299	$ 426,655	$ —

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

Age Analysis of Past Due Loans as of December 31, 2013:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	$—	$ —	$ —	$ —	$ 11,752	$ 11,752	$ —
Multi-family	—	—	—	—	188,923	188,923	—
Mixed-use	—	2,210	—	2,210	48,257	50,467	—
Non-residential real estate	—	—	2,372	2,372	79,613	81,985	—
Construction loans	—	—	—	—	6,568	6,568	—
Commercial and industrial loans	—	—	—	—	31,345	31,345	—
Consumer	—	—	—	—	161	161	—
	$—	$ 2,210	$ 2,372	$ 4,582	$ 366,619	$ 371,201	$ —

The following tables provide certain information related to the credit quality of our loan portfolio.

Credit Risk Profile by Internally Assigned Grade as of December 31, 2014:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
	(In Thousands)					
Grade:						
Pass	$ 261,501	$ 75,063	$ 46,607	$ 31,352	$ 142	$ 414,665
Special Mention	235	815	—	500	—	1,550
Substandard	1,141	6,744	—	2,555	—	10,440
	$ 262,877	$ 82,622	$ 46,607	$ 34,407	$ 142	$ 426,655

Credit Risk Profile by Internally Assigned Grade as of December 31, 2013:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
	(In Thousands)					
Grade:						
Pass	$248,932	$ 71,659	$ 6,568	$ 25,733	$ 161	$353,053
Special Mention	—	—	—	5,612	—	5,612
Substandard	2,210	10,326	—	—	—	12,536
	$251,142	$ 81,985	$ 6,568	$ 31,345	$ 161	$371,201

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

There were no loans modified that were deemed troubled debt restructuring during the year ended December 31, 2014. At December 31, 2014, none of the loans that were modified during the previous twelve months had defaulted during the year ended December 31, 2014.

The following table shows the breakdown of loans modified during the year ended December 31, 2013:

	2013		
	(Dollars in Thousands)		
(dollars in thousands)	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Real estate loans:			
Multi-family	1	$ 307	$ 307
Non-residential	3	3,253	3,253
	4	$ 3,560	$ 3,560

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

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

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

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

Note 7 - Premises and Equipment, Net

Premises and equipment at December 31 are summarized as follows:

	2014	2013
	(In Thousands)	
Land	$2,415	$2,415
Buildings and improvements	13,291	13,233
Leasehold improvements	638	638
Furnishings and equipment	6,786	6,666
	23,130	22,952
Accumulated depreciation and amortization	(11,412)	(10,718)
	$11,718	$12,234

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 8 - Accrued Interest Receivable, Net

Accrued interest receivable, net at December 31 is summarized as follows:

	2014	2013
	(In Thousands)	
Loans receivable	$1,771	$1,531
Securities	19	25
	1,790	1,556
Allowance for uncollected interest	(337)	(289)
	$1,453	$1,267

Note 9 - Goodwill and Intangible Assets

Goodwill and intangible assets at December 31 are summarized as follows:

	2014	2013
	(In Thousands)	
Goodwill	$749	$749
Customer relationships intangible	284	345
	$1,033	$1,094

The Company did not identify any impairment of goodwill and intangible assets during the year ended December 31, 2014 and recognized a goodwill impairment loss of $334,000 during the year ended December 31, 2013, resulting in a write-down of goodwill to $749,000 as of December 31, 2013. The impairment was caused primarily by the expected decrease in other revenue from this division resulting from a reduction in personnel. Amortization expense of customer relationships intangible was $61,000 and $61,000 for the years ended December 31, 2014 and 2013, respectively. Scheduled amortization for each of the next five years and thereafter is as follows (in thousands):

2015	$61
2016	61
2017	61
2018	61
2019	40

Note 10 - Real Estate Owned ("REO")

The Company owned five foreclosed properties valued at approximately $8,733,000 at December 31, 2014 consisting of an office building located in New Jersey, an office building located in Pennsylvania, a mixed-use property located in Massachusetts, a building housing auto repair and auto rental facilities located in Massachusetts, and a multi-family property located in Connecticut. All the properties were acquired through foreclosures during the year ended December 31, 2014, except for the office building located in New Jersey that was acquired through a foreclosure in 2012. Further declines in real estate values may result in impairment charges in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. REO expense amounted to $486,000 during the year ended December 31, 2014. The multi-family property located in Connecticut with a balance of $115,000 at December 31, 2014 was subsequently sold in February 2015 at a gain of $5,000.

The Company owned one foreclosed property valued at approximately $3,985,000 at December 31, 2013 consisting of an office building located in New Jersey. REO expense amounted to $425,000 during the year ended December 31, 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 11 - Deposits

	December 31, 2014		2013	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in Thousands)			
Demand deposits:				
Non-interest bearing	$37,088	0.00 %	$28,310	0.00 %
NOW and money market	72,797	0.48 %	60,334	0.36 %
Total	109,885	0.32 %	88,644	0.24 %
Savings accounts	82,976	0.56 %	85,156	0.55 %
Certificates of deposit maturing in:				
One year or less	57,805	0.88 %	62,987	1.07 %
After one to two years	58,693	1.50 %	23,303	1.25 %
After two to three years	39,477	2.28 %	20,225	2.14 %
After three to four years	12,356	1.72 %	36,329	2.35 %
After four years	12,860	1.92 %	8,565	1.80 %
Total	181,191	1.52 %	151,409	1.59 %
	$374,052	0.95 %	$325,209	0.95 %

As of December 31, 2014 and 2013, certificates of deposits equal to or in excess of $100,000 totaled approximately $121,348,000 and $89,699,000, respectively.

The Company had $986,000 at December 31, 2014 and $980,000 at December 31, 2013 in Certificate of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits that were fully-insured brokered deposits as defined in the FDIC call report instructions. The CDARS certificates of deposits were obtained from one retail depositor and then transferred into the CDARS Network in order to obtain full FDIC insurance coverage for our customer. These types of deposits are known in the CDARS Network as reciprocal deposits.

Interest expense on deposits consists of the following:

Years Ended December 31,	
2014	2013
(In Thousands)	

Demand deposits	$ 251	$ 219
Savings accounts	469	445
Certificates of deposit	2,567	2,287
	$ 3,287	$ 2,951

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 12 – Federal Home Loan Bank of New York ("FHLB") Advances

	December 31,					
	2014			2013		
	Amount	Weighted Average Interest Rate		Amount	Weighted Average Interest Rate	
	(Dollars in Thousands)					
Advances maturing in:						
One year or less	$27,000	0.37	%	$16,000	1.45	%
After one to two years	3,000	1.03	%	2,000	0.68	%
After two to three years	—	0.00	%	3,000	1.03	%
	$30,000	0.44	%	$21,000	1.32	%

At December 31, 2014, none of the above advances were subject to early call or redemption features.

At December 31, 2014, the advances were secured by a pledge of the Company's investment in the capital stock of the FHLB and a blanket assignment of the Company's otherwise unpledged qualifying mortgage loans.

At December 31, 2014, the Company had the ability to borrow $83.2 million, net of $30.0 million in outstanding advances, from the FHLB and $8.0 million from Atlantic Community Bankers Bank ("ACBB").

Note 13 - Income Taxes

The Bank qualifies as a savings institution under the provisions of the Internal Revenue Code and was, therefore, prior to January 1, 1996, permitted to deduct from taxable income an allowance for bad debts based upon eight percent of taxable income before such deduction, less certain adjustments. Retained earnings at December 31, 2014 and 2013, include approximately $4.1 million of such bad debt deductions which, in accordance with U.S. GAAP is considered a permanent difference between the book and income tax basis of loans receivable, and for which deferred income taxes have not been provided. If such amount is used for purposes other than for bad debt losses, including distributions in liquidation, it will be subject to income tax at the then current rate.

The components of provision for income taxes are summarized as follows:

	Years Ended December 31,	
	2014	2013
	(In Thousands)	

Current tax expense	$	714	$	189
Deferred tax expense		73		211
	$	787	$	400

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 13 - Income Taxes (Continued)

The following table presents a reconciliation between the reported income taxes and the income taxes, which would be computed by applying the existing federal income tax rate of 34% to income before taxes:

	Years Ended December 31,	
	2014	2013
	(Dollars In Thousands)	
Federal income tax at statutory rates	$ 845	$ 523
State and city tax, net of federal income tax effect	176	132
Non-taxable income on bank owned life insurance	(212)	(217)
Other	(22)	(38)
	$ 787	$ 400
Effective Income Tax Rate	31.7 %	26.0 %

The tax effects of significant items comprising the net deferred tax asset are as follows:

	December 31,	
	2014	2013
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$1,585	$1,742
State operating loss carryover	220	320
Reserve for uncollected interest	135	116
Depreciation	137	95
Benefit plans	1,540	1,387
Accumulated other comprehensive loss - DRP	21	52
Goodwill	—	15
Other	59	54
Total Deferred Tax Assets	3,697	3,781
Deferred tax liability:		
Unrealized gain on securities available for sale	—	1
Goodwill	20	—
Total Deferred Tax Liabilities	20	1
	$3,677	$3,780

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 14 - Other Non-Interest Expenses

The following is an analysis of other non-interest expenses:

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Audit and accounting	$ 544	$ 440
Telephone	477	392
Service contracts	457	402
Directors compensation	403	461
Legal fees	375	630
Other	312	350
Director, officer, and employee expenses	262	332
Insurance	232	222
Consulting expense	229	378
Recruiting expense	128	96
Office supplies and stationary	66	77
	$ 3,485	$ 3,780

Note 15 - Benefits Plans

Outside Director Retirement Plan (“DRP”)

The DRP is an unfunded non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The following table sets forth the funded status of the DRP and components of net pension periodic expense measured as of December 31:

	Years Ended December 31,	
	2014	2013
	(Dollars In Thousands)	
Projected benefit obligation – beginning	$ 1,041	$ 1,202
Service cost	73	73
Interest cost	40	41
Actuarial gain	(59)	(278)
Prior service cost	—	3
Projected benefit obligation – ending	$ 1,095	$ 1,041

Funded status – accrued liability included in accounts payable and accrued expenses	$ 1,095		$ 1,041	
Accumulated benefit obligation	$ 1,037		$ 983	
Discount rate	4.12	%	4.45	%
Salary increase rate	2.00	%	2.00	%

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 15 - Benefits Plans (Continued)

Outside Director Retirement Plan ("DRP") (Continued)

	Years Ended December 31,	
	2014	2013
	(Dollars In Thousands)	
Net periodic pension expense:		
Service cost	$73	$73
Interest cost	40	41
Actuarial loss recognized	(2)	36
Prior service cost recognized	21	21
Total net periodic pension expense included in other non-interest expenses	$132	$171
Discount rate	4.12%	4.45%
Salary increase rate	2.00%	2.00%

Benefit payments, which reflect expected future service as appropriate, are expected to be paid for the years ending December 31 as follows (in thousands):

2015	$90
2016	90
2017	90
2018	90
2019	90
2020 to 2024	585

Supplemental Executive Retirement Plan ("SERP")

The SERP is a non-contributory defined benefit plan that covers certain officers of the Company.

Under the SERP, each of these individuals will be entitled to receive upon retirement an annual benefit paid in monthly installments equal to 50% of his average base salary in the three-year period preceding retirement. Each individual may also retire early and receive a reduced benefit upon the attainment of certain age and years of service combination. Additional terms related to death while employed, death after retirement, disability before retirement and

termination of employment are fully described within the plan document. The benefit payment term is the greater of 15 years or the executives remaining life. No benefits are expected to be paid during the next ten years.

During the years ended December 31, 2014 and 2013, expenses of $191,000 and income of $143,000, respectively, were recorded for this plan and are reflected in the Consolidated Statements of Operations under Salaries and Employee Benefits. At December 31, 2014 and 2013, a liability for this plan of $1,989,000 and $1,799,000, respectively, is included in the Consolidated Statements of Financial Condition under Accounts Payable and Accrued Expenses. The former Chief Financial Officer, who resigned and left the Company effective July 24, 2013, is no longer participating in the SERP. In connection with his resignation, the Company reversed $221,000 in accrued liability and expenses and $88,000 in deferred taxes and tax expenses during 2013.

401(k) Plan

The Company maintains a 401(k) plan for all eligible employees. Participants are permitted to contribute from 1% to 15% of their annual compensation up to the maximum permitted under the Internal Revenue Code. The Company provided no matching contribution in 2014 and 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 15 - Benefits Plans (Continued)

Employee Stock Ownership Plan ("ESOP")

In conjunction with the Company's initial public stock offering, the Bank established an ESOP for all eligible employees (substantially all full-time employees). The ESOP borrowed $5,184,200 from the Company and used those funds to acquire 518,420 shares of Company common stock at $10.00 per share. The loan from the Company carries an interest rate of 8.25% and is repayable in twenty annual installments through 2025. Each year, the Bank makes discretionary contributions to the ESOP equal to the principal and interest payment required on the loan from the Company. The ESOP may further pay down the principal balance of the loan by using dividends paid, if any, on the shares of Company common stock it owns. The balance remaining on the ESOP loan was $3,647,000 and $3,846,000 at December 31, 2014 and 2013, respectively.

Shares purchased with the loan proceeds serve as collateral for the loan and are held in a suspense account for future allocation among ESOP participants. As the loan principal is repaid, shares will be released from the suspense account and become eligible for allocation. The allocation among plan participants will be as described in the ESOP governing document.

ESOP shares initially pledged as collateral were recorded as unearned ESOP shares in the stockholders' equity section of the consolidated statement of financial condition. Thereafter, on a monthly basis over a 240 month period, approximately 2,160 shares are committed to be released and compensation expense is recorded equal to the shares committed to be released multiplied by the average closing price of the Company's stock during that month. ESOP expense during the years ended December 31, 2014 and 2013, totaled approximately $184,000 and $164,000, respectively. Dividends on unallocated shares, which totaled approximately $38,000 and $40,000 during 2014 and 2013, respectively, are recorded as a reduction of the ESOP loan. Dividends on allocated shares, which totaled approximately $24,000 and $22,000 during 2014 and 2013, respectively, are charged to retained earnings.

ESOP shares are summarized as follows:

	December 31,	
	2014	2013
Allocated shares	207,368	181,447
Shares committed to be released	25,921	25,921
Unearned shares	285,131	311,052
Total ESOP Shares	518,420	518,420
Less allocated shares distributed to former or retired employees	(35,051)	(23,231)
Total ESOP Shares Held by Trustee	483,369	495,189
Fair value of unearned shares	$2,059,000	$2,433,000

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 16 - Commitments and Contingencies

Lease Commitments

Rentals under operating leases for certain branch offices and land amounted to $460,000 and $576,000 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, the minimum rental commitments under all non-cancelable leases with initial or remaining terms of more than one year are as follows (in thousands):

Year ending December 31,	
2015	$437
2016	198
2017	98
2018	77
2019	16
Thereafter	1,058
	$1,884

Other

On October 31, 2011, a complaint was filed by Stilwell Value Partners IV, L.P. in the Supreme Court of New York, New York County (the "Court"), against the MHC and each of the directors of the Company and the MHC as defendants, and against the Company as a nominal defendant. The complaint alleged that the directors had breached their fiduciary duties by not expanding the Company board to allow for disinterested consideration of a "second-step" conversion of the MHC. As relief, the complaint requested, among other things, that the Company's board of directors be increased by at least three new members, that such new members be given sole responsibility to determine whether the Company should engage in a second-step conversion and that the Court order the Company to engage in a second-step conversion. A motion to dismiss the Complaint was filed on December 14, 2011. On September 27, 2012, the Court granted the Company's motion to dismiss and dismissed the complaint granting Stilwell leave to file an amended complaint within 20 days. On December 14, 2012 Stilwell filed an amended complaint, alleging that the directors had breached their fiduciary duties by not voting to authorize a second step conversion or permitting disinterested consideration by new, independent board members of a second step conversion. Stilwell also asserted claims against the MHC, as majority shareholder of the Company.

The defendants and the Company filed a motion to dismiss on February 1, 2013. On October 23, 2013, the Court denied the motion to dismiss, holding the Court could not say that Stilwell had not alleged a viable claim, and thus the Court allowed the lawsuit against the Company's directors and the MHC to proceed. The defendants and the Company appealed that decision to the Supreme Court of the State of New York's Appellate Division, First Department, ("Appellate Division") on November 27, 2013. On June 12, 2014, the Appellate Division affirmed the Court's decision.

Additionally, on February 21, 2014, Stilwell moved to disqualify the Company's counsel, which represents the Company, the individual directors, and MHC in this litigation. On December 30, 2014, the New York Supreme Court Appellate Division, First Department, affirmed the Court's decision to deny Stilwell's disqualification motion.

The parties have completed fact discovery and expert discovery. On January 14, 2015, Stilwell filed a certification of readiness for trial. Motions for summary judgment were filed by the parties on March 3, 2015. Oppositions to summary judgment are due March 31, 2015. Replies in support of summary judgment are due April 21, 2015.

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

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company has to record at fair value other assets and liabilities on a non-recurring basis, such as securities held to maturity, impaired loans and other real estate owned. U.S. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2014	(In Thousands)			
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$35	$ —	$ 35	$ —
Federal National Mortgage Association	5	—	5	—
Total	40	—	40	—
Nonrecurring:				
Real estate owned	2,137	—	—	2,137

December 31, 2013:				
Recurring:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	$65	$ —	$ 65	$ —
Federal National Mortgage Association	48	—	48	—
Total	113	—	113	—
Nonrecurring:				
Impaired loans	789	—	—	789

For real estate owned, fair value is generally determined through independent appraisals or fair value estimations of the underlying properties which generally include various Level 3 inputs which are not identifiable. The appraisals or fair value estimation may be adjusted by management for qualitative reasons and estimated liquidation expenses. Management's assumptions may include consideration of location and occupancy of the property and current economic conditions. Subsequently, as these properties are actively marketed, the estimated fair values may be periodically adjusted through incremental subsequent write-downs to reflect decreases in estimated values resulting from sales price observations and the impact of changing economic and market conditions.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

At December 31, 2014 to account for the aforementioned factors, adjustments to appraisal or fair values for real estate owned ranged from 1.3% to 20.0%.

A loan is considered impaired when, based upon current information and events; it is probable that the Company will be unable to collect all scheduled payments in accordance with the contractual terms of the loan. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves, a component of the allowance for loan losses or through partial charge-offs, and as such are carried at the lower of cost or the fair value. Estimates of fair value of the collateral are determined based on a variety of information, including available valuations from certified appraisers for similar assets, present value of discounted cash flows and inputs that are estimated based on commonly used and generally accepted industry liquidation advance rates and estimates and assumptions developed by management. The appraisals may be adjusted by management for estimated liquidation expenses and qualitative factors such as economic conditions. If real estate is not the primary source of repayment, present value of discounted cash flows and estimates using generally accepted industry liquidation advance rates are utilized. The liquidation expenses and other appraisal adjustments of the impaired loans at December 31, 2013 was 3.0%. Due to the multitude of assumptions, many of which are subjective in nature, and the varying inputs and techniques used by appraisers, the Company recognizes that valuations could differ across a wide spectrum of valuation techniques employed and accordingly, fair value estimates for impaired loans are classified as Level 3.

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company’s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company’s disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company’s financial instruments at December 31, 2014 and 2013:

Cash and Cash Equivalents, Certificates of Deposit and Accrued Interest Receivable and Payable

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value

measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The total loan portfolio is first divided into performing and non-performing categories. Performing loans are then segregated into adjustable and fixed rate interest terms. Fixed rate loans are segmented by type, such as construction, other loans secured by real estate, commercial and industrial loans, and consumer. Certain types, such as commercial and industrial loans and consumer loans, are further segmented by maturity and type of collateral.

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by discounting the estimated future cash flows from the remaining carrying value at a market rate.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

Loans (Continued)

For impaired loans which the Company has measured and recorded impairment generally based on the fair value of the loan's collateral, fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are typically included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Investments in Restricted Stocks

The carrying amount of the FHLB of New York and ACBB stocks approximates their fair value and considers the limited marketability of these securities.

Deposit Liabilities

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, money market accounts, interest checking accounts, and savings accounts is equal to the amount payable on demand. Certificates of deposits are segregated by type, size, and remaining maturity. The fair value of certificates of deposits is based on the discounted value of contractual cash flows. The discount rate is based on rates currently offered in the market.

FHLB of New York Advances

The fair value of the FHLB advances is estimated based on the discounted value of future contractual payments. The discount rate is equivalent to the estimated rate at which the Company could currently obtain similar financing.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is 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 credit-worthiness of the potential borrowers. At December 31, 2014 and 2013, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Fair Value Disclosures (Continued)

The carrying amounts and estimated fair value of our financial instruments are as follows:

			Fair Value at December 31, 2014		
(In thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	$ 34,010	$ 34,010	$ —	$ 34,010	$ —
Certificates of deposit	150	150	—	150	—
Securities available for sale	40	40	—	40	—
Securities held to maturity	6,595	6,805	—	6,805	—
Loans receivable	423,445	429,467	—	—	429,467
Investments in restricted stock	1,933	1,933	—	1,933	—
Accrued interest receivable	1,453	1,453	—	1,453	—
Financial Liabilities					
Deposits	374,052	377,276	—	377,276	—
FHLB of New York advances	30,000	29,970	—	29,970	—
Accrued interest payable	3	3	—	3	—

			Fair Value at December 31, 2013		
			Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs

(In thousands)	Carrying Amount	Fair Value	for Identical Assets (Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$ 31,531	$ 31,531	$ —	$ 31,531	$ —
Certificates of deposit	2,142	2,142	—	2,142	—
Securities available for sale	113	113	—	113	—
Securities held to maturity	8,444	8,739	—	8,739	—
Loans receivable	367,825	374,820	—	—	374,820
Investments in restricted stock	1,594	1,594	—	1,594	—
Accrued interest receivable	1,267	1,267	—	1,267	—
Financial Liabilities:					
Deposits	325,209	328,654	—	328,654	—
FHLB of New York advances	21,000	21,016	—	21,016	—
Accrued interest payable	2	2	—	2	—

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 – Parent Company Only Financial Information

The following are the condensed financial statements for Northeast Community Bancorp (Parent company only) as of December 31, 2014 and 2013 and for the years then ended.

Condensed Statements of Financial Condition

	December 31,	
	2014	2013
	(In Thousands)	
Assets		
Cash and due from banks	$9,807	$12,492
Certificates of deposits	50	1,046
Investment in subsidiary	88,878	86,957
Loans (1)	1,479	—
ESOP loan receivable	3,647	3,847
Other assets	99	8
Total Assets	$103,960	$104,350
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$150	$182
Total Liabilities	150	182
Total Stockholders' Equity	103,810	104,168
Total Liabilities and Stockholders' Equity	$103,960	$104,350

(1) Represents participation loans purchased from the Bank.

Condensed Statements of Operations and Comprehensive Income

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Interest income – interest- earning deposits	$ 13	$ 6
Interest income – ESOP loan	318	332
Operating expenses	(324)	(260)
Income before Income Tax Expense and Equity in Undistributed Earnings of Subsidiary	7	78

Income tax expense	3	24
Income before Equity in Undistributed Earnings of Subsidiary	4	54
Equity in undistributed earnings of subsidiary	1,693	1,083
Net Income	$ 1,697	$ 1,137
Comprehensive Income	$ 1,743	$ 1,336

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 – Parent Company Only Financial Information (Continued)

Statements of Cash Flow

	Years Ended December 31,	
	2014	2013
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	$ 1,697	$ 1,137
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed earnings (loss) of subsidiary	(1,693)	(1,083)
(Increase) decrease in other assets	(91)	4
Decrease in other liabilities	(25)	(10)
Net Cash (Used in) Provided by Operating Activities	(112)	48
Cash Flows from Investing Activities		
Repayment of ESOP loan	200	184
Purchase of loans	(1,479)	—
Net maturity (purchases) of certificates of deposit	996	(747)
Net Cash Used in Investing Activities	(283)	(563)
Cash Flows from Financing Activities		
Cash dividends paid	(582)	(453)
Purchase of treasury stock	(1,708)	(579)
Net Cash Used in Financing Activities	(2,290)	(1,032)
Net Decrease in Cash and Cash Equivalents	(2,685)	(1,547)
Cash and Cash Equivalents - Beginning	12,492	14,039
Cash and Cash Equivalents - Ending	$ 9,807	$ 12,492

Note 19 – Related Party Transactions

In the normal course of business, the Company entered into deposit transactions with members of the Board of Directors and management. These transactions are entered into under the same terms as those for non-related parties and are considered immaterial to the Company's consolidated financial statements. In addition, one member of the Board of Directors provides consulting services related to bank branching and the Community Reinvestment Act and another member of the Board of Directors provides legal services to the Company. Fees paid for the consulting and legal services totaled $15,200 and $7,250, respectively, for the year ended December 31, 2014 and $60,000 and $2,600, respectively, for the year ended December 31, 2013.

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Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 20 – Reclassification Out of Accumulated Other Comprehensive Income

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income December 31,		Affected Line Item in the Consolidated Statements of Comprehensive Income (Loss)
	2014	2013	
	(In Thousands)		
Amortization of defined benefit pension items:			
Prior service costs (1)	$ 21	$ 21	Salary and employee benefits
Unrecognized loss (1)	(2)	36	Salary and employee benefits
	19	57	Total before tax
	(8)	(22)	Income tax benefit
Total reclassifications for the period	$ 11	$ 35	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 15 for additional details).

Note 21 - Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors,* which clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company does not expect the adoption of this guidance to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board (“IASB”) issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is effective for annual periods, and interim periods within those annual periods,

beginning after December 15, 2016. The adoption of this standard effective April 1, 2017 is not expected to have a material impact on the Company’s consolidated financial statements.

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