

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

**Annual Report Pursuant To Section 13 or 15(d) Of The Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2015 .

or

**Transition Report Pursuant To Section 13 or 15(d) Of The Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-50275

**BCB BANCORP, INC.**

(Exact name of registrant as specified in its charter)

New Jersey 26-0065262  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

104-110 Avenue C, Bayonne, New Jersey 07002  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (201) 823-0700

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

| Title of each class  | Name of each exchange on which registered |
|--|---|
| Common Stock, no par value                                       | The NASDAQ Stock Market, LLC              |
| Securities registered pursuant to Section 12(g) of the Act: None |   |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 such shorter period that the Registrant was required to submit and post such files).

YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2015, as reported by the Nasdaq Global Market, was approximately \$ 103.2 million .

As of March 9, 2016, there were 11,221,897 shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

(1) Proxy Statement for the 2016 Annual Meeting of Stockholders of the Registrant (Part III).

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## **PART I**

### **ITEM 1. BUSINESS**

This report on Form 10-K contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of BCB Bancorp, Inc. and subsidiaries. This document may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “seek,” “strive,” “try,” or future or conditional verbs such as “will,” “would,” “should,” “could,” “may,” or similar expressions. Although we believe that our plans, intentions and expectations, as reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or realized. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise forward-looking statements except as may be required by law.

#### **BCB Bancorp, Inc.**

BCB Bancorp, Inc. (the “Company”) is a New Jersey corporation established in 2003, and is the holding company parent of BCB Community Bank (the “Bank”; collectively, “we” or “our”). The Company has not engaged in any significant business activity other than owning all of the outstanding common stock of BCB Community Bank. Our executive office is located at 104-110 Avenue C, Bayonne, New Jersey 07002. Our telephone number is (201) 823-0700 and our website is [www.bcbcommunitybank.com](http://www.bcbcommunitybank.com). At December 31, 2015 we had approximately \$1.62 billion in consolidated assets, \$1.27 billion in deposits and \$133.5 million in consolidated stockholders’ equity. The Company is subject to extensive regulation by the Board of Governors of the Federal Reserve System.

#### **BCB Community Bank**

BCB Community Bank opened for business on November 1, 2000 as Bayonne Community Bank, a New Jersey chartered commercial bank. The Bank changed its name from Bayonne Community Bank to BCB Community Bank in April 2007. At December 31, 2015, the Bank operated through 15 branches in Bayonne, Colonia, Jersey City, Hoboken, Fairfield, Monroe Township, South Orange, Rutherford and Woodbridge, New Jersey, and one branch in Staten Island, New York and through executive offices located at 104-110 Avenue C and an administrative office located at 591-595 Avenue C, Bayonne, New Jersey 07002. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation, (the “FDIC”) and the Bank is a member of the Federal Home Loan Bank System.

We are a community-oriented financial institution. Our business is to offer FDIC-insured deposit products and to invest funds held in deposit accounts at the Bank, together with funds generated from operations, in loans and investment securities. We offer our customers:

- loans, including commercial and multi-family real estate loans, one- to four-family mortgage loans, home equity loans, construction loans, consumer loans and commercial business loans. In recent years the primary growth in our loan portfolio has been in loans secured by commercial real estate and multi-family properties;
- FDIC-insured deposit products, including savings and club accounts, interest and non-interest bearing demand accounts, money market accounts, certificates of deposit and individual retirement accounts; and
- retail and commercial banking services including wire transfers, money orders, safe deposit boxes, a night depository, debit cards, online banking, mobile banking, gift cards, fraud detection (positive pay), and automated teller services.

#### **Significant Events**

The Company has progressed on an organic branching initiative which is intended to mitigate the location risk of our strong Hudson County, New Jersey concentration, to develop our branch infrastructure in a manner more consistent with the expansion of lending markets and to fill in and grow our branch footprint in a more uniform and coherent fashion, which previously had grown predominately through merger activity. To this end, the Company opened a branch in Colonia, New Jersey in July 2014, one in Fairfield, New Jersey in November 2014, and one branch in each of Staten Island, New York and Rutherford, New Jersey in February 2015. The Company is also looking to open several more branches within the next year.

In November 2015, the Company issued and sold in a public offering an aggregate of 2,760,000 shares of the Company’s common stock at \$10.00 per share. The shares included in our offering were registered under the Securities Act pursuant to our registration statement filed with the Securities and Exchange Commission on Form S-3 (File No. 333-199424) and was filed with the SEC on October 16, 2014 and declared effective on November 4, 2014. The Form S-3 registered certain types of our securities, including our common stock, up to a total dollar amount of \$50.0 million. Sandler O’Neill & Partners, L.P. acted as book-running manager and as representatives of the underwriters. Janney Montgomery Scott LLC and Oppenheimer & Company Inc. acted as co-managers for the offering. The offering commenced on October 28, 2015 and terminated on November 4, 2015.

The offering resulted in \$25.6 million of net proceeds, after deducting underwriting discounts and commissions and other offering expenses of \$2.0 million payable by us. None of the underwriting discounts and commissions or other offering expenses were incurred or paid to our directors or officers or their associates or to persons owning 10% or more of our common stock or to any of our affiliates.

On November 27, 2015, the Company closed a private placement of Series C Noncumulative Perpetual Preferred Stock, resulting in the issuance of 388 shares of Series C 6% Non-Cumulative Perpetual Preferred Shares (“Series C Shares”) for gross proceeds of \$3.88 million through December 31, 2015. The costs associated with this private placement were approximately \$32,000. The Series C Shares issued are callable by the Company after December 31, 2017 at \$10,000 per share (liquidation preference value). There is no ability to convert the Series C Shares to common shares. Dividends on the Series C Shares, if and when declared, will be paid quarterly in arrears.

On October 30, 2013, the Company amended its Restated Certificate of Incorporation to revise Article V to amend certain terms related to the Series A 6% Noncumulative Perpetual Preferred Stock and to create a new Series C 6% - Noncumulative Perpetual Preferred Stock, which sets forth the number of shares to be included in such series, to fix the designation, powers, preferences, rights of the shares of each such series and any qualifications, limitations or restrictions thereof. Such amendment to the Restated Certificate of Incorporation was approved by the directors of BCB Bancorp, Inc. on February 20, 2013.

On October 31, 2013, the Company closed a private placement of Series B Noncumulative Perpetual Preferred Stock, resulting in the issuance of 478 shares of Series B 6% Non-Cumulative Perpetual Preferred Shares (“Series B Shares”) for gross proceeds of \$4.78 million through December 31, 2014. The costs associated with this private placement were approximately \$24,000. The Series B Shares issued are callable by the Company after October 31, 2016, at \$10,000 per share (liquidation

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preference value). There is no ability to convert the Series B Shares to common shares. Dividends on the Series B Shares, if and when declared, will be paid quarterly in arrears.

At December 31, 2012, the Company closed a private placement of its Series A 6% Noncumulative Perpetual Preferred Stock, par value \$0.01 per share ("Series A Shares"). The Company sold \$8.65 million to certain investors at a purchase price of \$10,000 per share. The net proceeds of this private placement are expected to be used primarily to support the capital of BCB Community Bank.

### **Business Strategy**

Our business strategy is to operate as a well-capitalized, profitable and independent community-oriented financial institution dedicated to providing the highest quality customer service. Management's and the Board of Directors' extensive knowledge of the markets we serve helps to differentiate us from our competitors. Our business strategy incorporates the following elements: maintaining a community focus, focusing on profitability, continuing our growth, concentrating on real estate-based lending, capitalizing on market dynamics, providing attentive and personalized service, and attracting highly qualified and experienced personnel. These attributes coupled with our desire to seek out under-served markets for banking products and services, facilitate our plan to grow our franchise footprint organically and synergistically.

*Maintaining a community focus.* Our management and Board of Directors have strong ties to the communities we serve. Many members of the management team are New Jersey natives and are active in the communities we serve through non-profit board membership, local business development organizations, and industry associations. In addition, our board members are well-established professionals and business leaders in the communities we serve. Management and the Board are interested in making a lasting contribution to these communities, and they have succeeded in attracting deposits and loans through attentive and personalized service.

*Strengthening our balance sheet.* For the year ended December 31, 2015, our return on average equity was 6.52% and our return on average assets was 0.48%. Our earnings per diluted share was \$0.69 for the year ended December 31, 2015 compared to \$0.81 for the year ended December 31, 2014. Earnings per share results were lower in 2015 primarily as a result of the Company's investment in growth with an increase in staffing, occupancy and equipment expenses related to retention of additional experienced business development and loan administration personnel, as well as new and anticipated branch openings. Management remains committed to strengthening the Bank's statements of financial condition and maintaining profitability by diversifying the products, pricing and services we offer. As a result of our efforts, total past due loans (greater than 90 days) have decreased from \$14.8 million at December 31, 2012 to \$14.5 million at December 31, 2015, while gross loans increased from \$936.2 million at December 31, 2012 to \$1.44 billion at December 31, 2015.

*Concentrating on real estate-based lending.* A primary focus of our business strategy is to originate loans secured by commercial and multi-family properties. Such loans generally provide higher returns than loans secured by one- to four-family properties. As a result of our underwriting practices, including debt service requirements for commercial real estate and multi-family loans, management believes that such loans offer us an opportunity to obtain higher returns without a measurable increased level of risk.

*Capitalizing on market dynamics.* The consolidation of the banking industry in northeast New Jersey has provided a unique opportunity for a customer-focused banking institution, such as the Bank. We believe our local roots and community focus provide the Bank with an opportunity to capitalize on the consolidation in our market area. This consolidation has moved decision making away from local, community-based banks to much larger banks headquartered outside of New Jersey. We believe our local roots and community focus provide the Bank with an opportunity to capitalize on the consolidation in our market area.

*Providing attentive and personalized service.* Management believes that providing attentive and personalized service is the key to gaining deposit and loan relationships in the markets we serve and their surrounding communities. Since we began operations, our branches have been open seven days a week.

*Attracting highly experienced and qualified personnel.* An important part of our strategy is to hire bankers who have prior experience in the markets we serve, as well as pre-existing business relationships. Our management team averages over 20 years of banking experience, while our lenders and branch personnel have significant experience at community banks and regional banks throughout the region. Management believes that its knowledge of these markets has been a critical element in the success of the Bank. Management's extensive knowledge of the local communities has allowed us to develop and implement a highly focused and disciplined approach to lending, and has enabled the Bank to attract a high percentage of low cost deposits.

### **Our Market Area**

We are located in Bayonne, Jersey City and Hoboken in Hudson County, Colonia, Monroe Township and Woodbridge in Middlesex County, Rutherford in Bergen County and Fairfield and South Orange in Essex County, New Jersey. The Bank has also recently opened a branch in Staten Island, New York. The Bank's locations are easily accessible and provide convenient services to businesses and individuals throughout our market area.

Our market area includes Bayonne, Jersey City, Hoboken, Colonia, Fairfield, South Orange, Woodbridge, Rutherford and Monroe Township, New Jersey, and now includes the boroughs of New York City. These areas are all considered "bedroom" or "commuter" communities to Manhattan. Our market area is well-served by a network of arterial roadways, including Route 440 and the New Jersey Turnpike.

Our market area has a high level of commercial business activity. Businesses are concentrated in the service sector and retail trade areas. Major employers in our market area include certain medical centers and local boards of education.

### **Competition**

The banking industry in northeast New Jersey and New York City is extremely competitive. We compete for deposits and loans with existing New Jersey and out-of-state financial institutions that have longer operating histories, larger capital reserves and more established customer bases. Our competition includes large financial services companies and other entities, in addition to traditional banking institutions, such as savings and loan associations, savings banks, commercial banks and credit unions. Our larger competitors have a greater ability to finance wide-ranging advertising campaigns through greater capital resources. Our marketing efforts depend heavily upon referrals from officers, directors, stockholders, advertising in local media and through a social media presence. We compete for business principally on the basis of personal service to customers, customer access to our business development and other officers and directors, and competitive interest rates and fees.

In the financial services industry in recent years, intense market demands, technological and regulatory changes, and economic pressures have eroded industry classifications that were once clearly defined. Banks have diversified their services, competitively priced their deposit products and become more cost-effective as a result of competition with each other and with new types of financial service companies, including non-banking competitors. Some of these market dynamics have resulted in a number of new bank and non-bank competitors, increased merger activity, and increased customer awareness of product and service differences among competitors.

**Lending Activities**

*Analysis of Loan Portfolio* . Set forth below is selected data relating to the composition of our loan portfolio by type of loan as a percentage of the respective portfolio.

|   | At December 31,     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
|---|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|   | 2015                |                 | 2014                |                 | 2013                |                 | 2012              |                 | 2011              |                 |
|   | Amount              | Percent         | Amount              | Percent         | Amount              | Percent         | Amount            | Percent         | Amount            | Percent         |
| (Dollars in Thousands)                          |                     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
| <b>Originated loans:</b>                        |                     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
| Residential one-to-four family                  | \$ 117,165          | 8.13 %          | \$ 124,642          | 10.16 %         | \$ 97,581           | 9.41 %          | \$ 78,007         | 8.33 %          | \$ 54,609         | 6.41 %          |
| Commercial and multi-family                     | 982,828             | 68.23           | 732,791             | 59.74           | 549,918             | 53.03           | 435,371           | 46.51           | 300,570           | 35.26           |
| Construction                                    | 64,008              | 4.44            | 73,497              | 5.99            | 37,307              | 3.60            | 22,267            | 2.38            | 13,079            | 1.53            |
| Commercial business <sup>(1)</sup>              | 70,340              | 4.88            | 54,244              | 4.42            | 52,659              | 5.08            | 47,250            | 5.05            | 51,963            | 6.10            |
| Home equity <sup>(2)</sup>                      | 31,237              | 2.17            | 30,175              | 2.46            | 28,660              | 2.76            | 25,964            | 2.77            | 26,103            | 3.06            |
| Consumer  | 2,365               | 0.16            | 2,178               | 0.18            | 533                 | 0.05            | 565               | 0.06            | 357               | 0.04            |
| <b>Sub-total</b>                                | <b>1,267,943</b>    | <b>88.01</b>    | <b>1,017,527</b>    | <b>82.95</b>    | <b>766,658</b>      | <b>73.93</b>    | <b>609,424</b>    | <b>65.10</b>    | <b>446,681</b>    | <b>52.40</b>    |
| <b>Acquired loans recorded at fair value:</b>   |                     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
| Residential one-to-four family                  | 67,587              | 4.69            | 81,051              | 6.61            | 100,612             | 9.71            | 121,983           | 13.03           | 154,259           | 18.10           |
| Commercial and multi-family                     | 79,308              | 5.51            | 95,191              | 7.76            | 126,123             | 12.16           | 149,454           | 15.97           | 168,246           | 19.74           |
| Construction                                    | -                   | -               | -                   | -               | 200                 | 0.02            | 1,043             | 0.11            | 1,670             | 0.20            |
| Commercial business <sup>(1)</sup>              | 4,281               | 0.30            | 6,381               | 0.52            | 10,478              | 1.01            | 12,177            | 1.30            | 22,356            | 2.62            |
| Home equity <sup>(2)</sup>                      | 18,851              | 1.31            | 22,698              | 1.85            | 27,313              | 2.63            | 34,289            | 3.66            | 42,360            | 4.97            |
| Consumer  | 263                 | 0.02            | 652                 | 0.05            | 919                 | 0.09            | 1,069             | 0.11            | 951               | 0.11            |
| <b>Sub-total</b>                                | <b>170,290</b>      | <b>11.83</b>    | <b>205,973</b>      | <b>16.79</b>    | <b>265,645</b>      | <b>25.62</b>    | <b>320,015</b>    | <b>34.18</b>    | <b>389,842</b>    | <b>45.74</b>    |
| <b>Acquired loans with deteriorated credit:</b> |                     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
| Residential one-to-four family                  | 1,474               | 0.10            | 1,595               | 0.13            | 2,141               | 0.21            | 2,936             | 0.31            | 9,217             | 1.08            |
| Commercial and multi-family                     | 669                 | 0.05            | 1,130               | 0.09            | 2,081               | 0.20            | 3,443             | 0.37            | 3,608             | 0.42            |
| Construction                                    | -                   | -               | -                   | -               | -                   | 0.00            | -                 | 0.00            | 2,251             | 0.26            |
| Commercial business <sup>(1)</sup>              | 167                 | 0.01            | 369                 | 0.03            | 371                 | 0.03            | 241               | 0.03            | 254               | 0.03            |
| Home equity <sup>(2)</sup>                      | 71                  | 0.00            | 82                  | 0.01            | 90                  | 0.01            | 140               | 0.01            | 612               | 0.07            |
| Consumer  | -                   | -               | -                   | -               | -                   | 0.00            | -                 | 0.00            | -                 | 0.00            |
| <b>Sub-total</b>                                | <b>2,381</b>        | <b>0.16</b>     | <b>3,176</b>        | <b>0.26</b>     | <b>4,683</b>        | <b>0.45</b>     | <b>6,760</b>      | <b>0.72</b>     | <b>15,942</b>     | <b>1.86</b>     |
| <b>Total Loans</b>                              | <b>1,440,614</b>    | <b>100.00 %</b> | <b>1,226,676</b>    | <b>100.00 %</b> | <b>1,036,986</b>    | <b>100.00 %</b> | <b>936,199</b>    | <b>100.00 %</b> | <b>852,465</b>    | <b>100.00 %</b> |
| <b>Less:</b>                                    |                     |                 |                     |                 |                     |                 |                   |                 |                   |                 |
| Deferred loan fees, net                         | 2,454               |                 | 2,675               |                 | 2,300               |                 | 1,535             |                 | 1,193             |                 |
| Allowance for loan losses                       | 18,042              |                 | 16,151              |                 | 14,342              |                 | 12,363            |                 | 10,509            |                 |
| <b>Total loans, net</b>                         | <b>\$ 1,420,118</b> |                 | <b>\$ 1,207,850</b> |                 | <b>\$ 1,020,344</b> |                 | <b>\$ 922,301</b> |                 | <b>\$ 840,763</b> |                 |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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*Loan Maturities.* The following table sets forth the contractual maturity of our loan portfolio at December 31, 2015. The amount shown represents outstanding principal balances. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as being due in one year or less. Variable-rate loans are shown as due at the time of repricing. The table does not include prepayments or scheduled principal repayments.

|                                    | <u>Due within 1 Year</u> | <u>Due after 1<br/>through 5 Years</u> | <u>Due After 5 Years</u> | <u>Total</u>        |
|------------------------------------|--------------------------|--|--------------------------|---------------------|
|                                    | (In Thousands)           |  |                          |                     |
| One- to four-family                | \$ 1,434                 | \$ 5,582                               | \$ 179,210               | \$ 186,226          |
| Construction                       | 46,819                   | 17,189                                 | -                        | 64,008              |
| Commercial business <sup>(1)</sup> | 19,115                   | 15,694                                 | 39,979                   | 74,788              |
| Commercial and multi-family        | 9,540                    | 76,359                                 | 976,906                  | 1,062,805           |
| Home equity <sup>(2)</sup>         | 3,858                    | 10,673                                 | 35,628                   | 50,159              |
| Consumer                           | 999                      | 232                                    | 1,397                    | 2,628               |
| <b>Total amount due</b>            | <b>\$ 81,765</b>         | <b>\$ 125,729</b>                      | <b>\$ 1,233,120</b>      | <b>\$ 1,440,614</b> |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

*Loans with Fixed or Floating or Adjustable Rates of Interest.* The following table sets forth the dollar amount of all loans at December 31, 2015 that are due after December 31, 2016, and have fixed interest rates and that have floating or adjustable interest rates.

|                                    | <u>Fixed Rates</u> | <u>Floating or Adjustable<br/>Rates</u> | <u>Total</u>        |
|------------------------------------|--------------------|---|---------------------|
|                                    | (In Thousands)     |   |                     |
| One- to four-family                | \$ 125,289         | \$ 59,503                               | \$ 184,792          |
| Construction                       | 1,830              | 15,359                                  | 17,189              |
| Commercial business <sup>(1)</sup> | 11,619             | 44,054                                  | 55,673              |
| Commercial and multi-family        | 191,038            | 862,227                                 | 1,053,265           |
| Home equity <sup>(2)</sup>         | 29,708             | 16,593                                  | 46,301              |
| Consumer                           | 1,413              | 216                                     | 1,629               |
| <b>Total amount due</b>            | <b>\$ 360,897</b>  | <b>\$ 997,952</b>                       | <b>\$ 1,358,849</b> |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

*Commercial and Multi-family Real Estate Loans* . Commercial real estate loans are secured by improved property such as office buildings, mixed use buildings retail stores, shopping centers, warehouses, and other non-residential buildings. Loans secured by multi-family residential units are properties consisting of five or more residential units. The Bank offers fully amortizing loans on commercial and multi-family properties at loan amounts up to 75% of the appraised value of the property. Commercial and multi-family real estate loans are generally made at rates that adjust above the five year Federal Home Loan Bank of New York interest rate, with terms of up to 30 years. The Bank also offers balloon loans with fixed interest rates which generally mature in three to five years with amortization periods up to 30 years. As of December 31, 2015, the Bank's largest commercial real estate loan had an outstanding principal balance of \$17.0 million. This loan is secured by a 49 unit Multi-family property located in New York City, NY. This loan is performing in accordance with its terms at December 31, 2015.

Loans secured by commercial and multi-family real estate are generally larger and involve a greater degree of risk than one-to-four family residential mortgage loans. The borrower's creditworthiness and the feasibility and cash flow potential of the project is of primary concern in commercial and multi-family real estate lending. Loans secured by owner occupied properties are generally larger and involve greater risks than one-to-four family residential and non-owner occupied commercial mortgage loans because payments on loans secured by owner occupied properties are often dependent on the successful operation or management of the business. The Bank intends to continue emphasizing the origination of loans secured by commercial real estate and multi-family properties.

*Construction Loans* . The Bank offers loans to finance the construction of various types of commercial and residential properties. Construction loans to builders generally are offered with terms of up to thirty months and interest rates tied to the prime rate plus a margin. These loans generally are offered as adjustable rate loans. The Bank will originate construction loans to customers provided all necessary plans and permits are in order. Construction loan funds are disbursed as the project progresses. The Bank also offers construction loans that convert to a permanent mortgage on the property upon completion of the construction and adherence to conditions established at the time the construction loan was first approved. Terms of such permanent mortgage loans are similar to other mortgage loans secured by similar properties, with the interest rate established at the time of conversion. As of December 31, 2015, the Bank's largest construction loan has a borrowing capacity of \$8.5 million, of which \$1.1 million has been disbursed. This loan is performing in accordance with its terms at December 31, 2015.

Construction financing is generally considered to involve a higher degree of risk than commercial real estate loans or one-to-four family residential lending. To mitigate these risks the Bank will obtain a plan and cost review from a third party vendor to review the proposed construction budget in an effort to avoid cost overruns. The Bank also obtains multiple appraised values based upon various possible outcomes of the project. These values include "As Is," "As Completed," "As a Rental," "As Sellout," and "As a Bulk Sale".

*Commercial Business Loans* . The Bank offers a variety of commercial business loans in forms of either lines of credit or term loans that are fully amortized. Lines of credit are typically utilized for working capital purposes. These loans are either revolving or non-revolving and provide loan terms between one to three years. The re-payment is generally interest only and the interest rate is adjustable based upon, the Prime Rate. Term loans are typically for purchasing a business or equipment for a business. Term loans have loan terms between five to twenty-five years and are fully amortizing. The interest rate is adjustable and tied to the five year Federal Home Loan Bank of New York rate. Commercial business loans are underwritten on the basis of the borrower's ability to service such debt from income. These loans are generally made to small and mid-sized companies located within the Bank's primary and secondary lending areas. A commercial business loan may be secured by equipment, accounts receivable, inventory, chattel or other assets. As of December 31, 2015, the Bank's largest commercial business loan is a revolving line of credit to school district loan in Hudson County, NJ secured by plant, equipment and accounts receivable. The borrowing capacity is \$15.0 million, of which no dollars have been dispersed. This loan is performing in accordance with its terms at December 31, 2015.

Commercial business loans generally have higher rates and shorter terms than one to four family residential loans, but they may also involve higher average balances and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

*SBA Lending*. The Bank offers qualifying business loans guaranteed by the U . S . Small Business Administration ("SBA"). To qualify the borrower may have low capitalization, inexperience in the industry, or a specialized industry or other unusual risks. As of December 31, 2015, the Bank's largest SBA loan is secured by a 4-story hotel building located in Brooklyn, New York. The borrowing capacity is \$6.0 million, of which \$3.1 million has been dispersed. This loan is performing in accordance with its terms at December 31, 2015.

*Residential Lending*. Residential loans are secured by one-to-four family dwellings, condominiums and cooperative units. Residential mortgage loans are secured by properties located in our primary lending areas of Bergen, Essex, Middlesex, Hudson, Monmouth and Richmond Counties; adjoining counties are considered as our secondary lending areas. We generally originate residential mortgage loans up to 75% loan-to-value at a maximum loan amount of \$3.0 million for primary residences. Loan-to-value is based on the lesser of the appraised value or the purchase price without the requirement of private mortgage insurance. We will originate loans with loan to value ratios up to 90%, provided the borrower obtains private mortgage insurance approval. We originate both fixed rate and adjustable rate residential loans with a term of up to 30 years. We offer 15, 20, and 30 year fixed, 15/30 year balloon and 3/1, 5/1, 7/1 and 10/1 adjustable rate loans with payments being calculated to include principal, interest, taxes and insurance. The 3/1 and 5/1 adjustable rate loans are qualified at 2% above the start rate; all other loans are qualified at the start rate. We have a number of correspondent relationships with third party lenders in which we deliver closed first mortgage loans. Our correspondent banking relationships allow us to offer customers competitive long term fixed rate and adjustable rate loans we could not otherwise originate, while providing the Bank a source of fee income. During 2015, we originated for sale approximately \$17.3 million in residential loans and recognized gains of approximately \$450,000 from the sale of such loans.

*Home Equity Loans and Home Equity Lines of Credit* . The Bank offers home equity loans and lines of credit that are secured by either the borrower's primary residence, a secondary residence or an investment. Our home equity loans can be structured as loans that are disbursed in full at closing or as lines of credit. Home equity lines of credit are offered with terms up to 30 years. Virtually all of our home equity loans are originated with fixed rates of interest and home equity lines of credit are originated with adjustable interest rates tied to the prime rate. Home equity loans and lines of credit are underwritten under the same criteria that we use to underwrite one to four family residential loans. Home equity lines of credit may be underwritten with a loan-to-value ratio of up to 80% in a first lien position. At December 31, 2015, the outstanding balances of home equity loans and lines of credit totaled \$50.2 million, or 3.45% of total loans.

*Consumer Loans* . The Bank makes secured Passbook, Automobile and occasionally unsecured consumer loans. Consumer loans generally have terms between one and five years. They generally are made on a fixed rate basis, fully-amortizing.

*Loan Approval Authority and Underwriting* . The Bank's Lending Policy has established lending limits for executive management. The President or the Chief Lending Officer, together with two Credit Officers, have authority to approve loan requests up to \$1.5 million. Loan requests in excess of \$1.5 million shall be presented to the Bank's Board of Directors Loan Committee, which shall be comprised of a quorum of the Bank's Board of Directors. Loan requests in excess of \$2.0 million must be ratified by the entire Bank Board of Directors.

Upon receipt of a completed loan application including all appropriate financial information from a prospective borrower, the Bank will conduct its due diligence analysis. Property valuations or appraisals are required for all real estate collateralized loans. Appraisals are prepared by a state certified independent appraiser approved by the Bank Board of Directors.



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*Loan Commitments* . Written commitments are given to prospective borrowers on all approved loans. Generally, we honor commitments for up to 60 days from the date of issuance. At December 31, 2015, our outstanding loan origination commitments totaled \$44.8 million, standby letters of credit totaled \$1.7 million, undisbursed construction funds totaled \$26.7 million and undisbursed lines of credit funds totaled \$107.3 million.

*Loan Delinquencies* . Notices of nonpayment are generated to borrowers once the loan account(s) becomes either 10 or 15 days past due, as specified in the applicable promissory note. A nonresponsive borrower will receive collection calls and a site visit from a bank representative in addition to follow-up delinquency notices. If such payment is not received after 60 days, a notice of right to cure default is sent to the borrower providing 30 additional days to bring the loan current before foreclosure or other remedies are commenced. The Bank utilizes various reporting tools to closely monitor the performance and asset quality of the loan portfolio. The Bank complies with all federal, state and local laws regarding collection of its delinquent accounts.

*Non-Accrual Status* . Loans are placed on a non-accrual status when the loan becomes more than 90 days delinquent or when, in our opinion, the collection of payment is doubtful. Once placed on non-accrual status, the accrual of interest income is discontinued until the loan has been returned to normal accrual. At December 31, 2015, the Bank had \$23.4 million in non-accruing loans. The largest exposure of non-performing loans consisted of a combined borrowing relationship in which the loans are collateralized by multiple properties whose combined balance at December 31, 2015 was \$3.3 million.

*Impairment Status* . A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Impaired loans can be loans which are more than 90 days delinquent, troubled debt restructured, part of our special residential program, in the process of foreclosure, or a forced Bankruptcy plan. We have determined that first mortgage loans on one- to four-family properties and all consumer loans represent large groups of smaller-balance homogeneous loans that are collectively evaluated. Additionally, we have determined that an insignificant delay (less than 90 days) will not cause a loan to be classified as impaired if we expect to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. We independently evaluate all loans identified as impaired. We estimate credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment will be derived from the sale or operation of such collateral. Impaired loans, or portions of such loans, are charged off when we determine a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan, in which case the portion of the receipts related to interest is applied to principal. At December 31, 2015, we had 176 loans with unpaid principal balances totaling \$51.1 million which are classified as impaired and on which loan loss allowances totaling \$3.7 million have been established. During 2015, interest income of \$1.6 million was recognized on impaired loans during the time of impairment.

*Troubled Debt Restructuring* . A troubled debt restructuring (“TDR”) is a loan that has been modified whereby the Bank has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Bank to maximize the ultimate recovery of a loan. TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a modification that would otherwise not be granted to the borrower. The types of concessions granted generally included, but not limited to, interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal. The total troubled debt restructured loans were \$28.5 million and \$30.7 million at December 31, 2015 and December 31, 2014, respectively.

The Bank had allocated \$ 1.7 million and \$904,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and December 31, 2014, respectively. There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or charge-off to the allowance. This process is used, regardless of loan type, and for loans modified as TDRs that subsequently default on their modified terms.



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The following tables set forth delinquencies in our loan portfolio as of the dates indicated:

|                                 | At December 31, 2015  |                                  |                       |                                  | At December 31, 2014  |                                  |                       |                                  |
|---------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
|                                 | 60-90 Days            |                                  | Greater than 90 Days  |                                  | 60-90 Days            |                                  | Greater than 90 Days  |                                  |
|                                 | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans |
| (Dollars in Thousands)          |                       |                                  |                       |                                  |                       |                                  |                       |                                  |
| Real estate mortgage :          |                       |                                  |                       |                                  |                       |                                  |                       |                                  |
| One-to-four family residential  | 4                     | \$ 1,097                         | 21                    | \$ 5,089                         | 12                    | \$ 4,096                         | 10                    | \$ 2,303                         |
| Construction                    | 1                     | 80                               | -                     | -                                | -                     | -                                | -                     | -                                |
| Home equity                     | 4                     | 333                              | 9                     | 816                              | 5                     | 552                              | 7                     | 216                              |
| Commercial and multi-family     | 11                    | 4,675                            | 18                    | 7,760                            | 6                     | 1,815                            | 8                     | 3,712                            |
| Total                           | 20                    | 6,185                            | 48                    | 13,665                           | 23                    | 6,463                            | 25                    | 6,231                            |
| Commercial business             | -                     | -                                | 10                    | 851                              | 2                     | 748                              | 2                     | 391                              |
| Consumer                        | -                     | -                                | -                     | -                                | 1                     | 9                                | -                     | -                                |
| Total delinquent loans          | 20                    | \$ 6,185                         | 58                    | \$ 14,516                        | 26                    | \$ 7,220                         | 27                    | \$ 6,622                         |
| Delinquent loans to total loans | 0.43 %                |                                  | 1.01 %                |                                  | 0.59 %                |                                  | 0.54 %                |                                  |

|                                 | At December 31, 2013  |                                  |                       |                                  | At December 31, 2012  |                                  |                       |                                  |
|---------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
|                                 | 60-90 Days            |                                  | Greater than 90 Days  |                                  | 60-90 Days            |                                  | Greater than 90 Days  |                                  |
|                                 | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans | Number<br>of<br>Loans | Principal<br>Balance<br>of Loans |
| (Dollars in Thousands)          |                       |                                  |                       |                                  |                       |                                  |                       |                                  |
| Real estate mortgage :          |                       |                                  |                       |                                  |                       |                                  |                       |                                  |
| One-to-four family residential  | 10                    | \$ 2,787                         | 11                    | \$ 2,148                         | 10                    | \$ 1,941                         | 10                    | \$ 2,348                         |
| Construction                    | -                     | -                                | -                     | -                                | 1                     | 1,174                            | 1                     | 130                              |
| Home equity                     | 2                     | 175                              | 2                     | 176                              | 7                     | 717                              | 12                    | 1,516                            |
| Commercial and multi-family     | 7                     | 2,882                            | 12                    | 4,352                            | 11                    | 5,245                            | 22                    | 9,275                            |
| Total                           | 19                    | 5,844                            | 25                    | 6,676                            | 29                    | 9,077                            | 45                    | 13,269                           |
| Commercial business             | -                     | -                                | 2                     | 290                              | 2                     | 152                              | 9                     | 1,514                            |
| Consumer                        | 1                     | 2                                | -                     | -                                | -                     | -                                | -                     | -                                |
| Total delinquent loans          | 20                    | \$ 5,846                         | 27                    | \$ 6,966                         | 31                    | \$ 9,229                         | 54                    | \$ 14,783                        |
| Delinquent loans to total loans | 0.56 %                |                                  | 0.67 %                |                                  | 0.99 %                |                                  | 1.58 %                |                                  |

|                                 | At December 31, 2011   |                                  |                      |                                  |
|---------------------------------|------------------------|----------------------------------|----------------------|----------------------------------|
|                                 | 60-90 Days             |                                  | Greater Than 90 Days |                                  |
|                                 | Number<br>of Loans     | Principal<br>Balance<br>of Loans | Number<br>of Loans   | Principal<br>Balance<br>of Loans |
|                                 | (Dollars in Thousands) |                                  |                      |                                  |
| Real estate mortgage :          |                        |                                  |                      |                                  |
| One-to-four family residential  | 8                      | \$ 2,495                         | 38                   | \$ 11,847                        |
| Construction                    | 1                      | 130                              | 8                    | 3,660                            |
| Home equity                     | 13                     | 1,018                            | 19                   | 1,181                            |
| Commercial and multi-family     | 14                     | 6,340                            | 56                   | 21,080                           |
| Total                           | 36                     | 9,983                            | 121                  | 37,768                           |
| Commercial business             | -                      | -                                | 11                   | 1,785                            |
| Consumer                        | 1                      | 10                               | -                    | -                                |
| Total delinquent loans          | 37                     | \$ 9,993                         | 132                  | \$ 39,553                        |
| Delinquent loans to total loans |                        | 1.17 %                           |                      | 4.64 %                           |

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The table below sets forth the amounts and categories of non-performing assets in the Bank's loan portfolio. Loans are placed on non-accrual status when delinquent more than 90 days or when the collection of principal and/or interest become doubtful. Foreclosed assets include assets acquired in settlement of loans.

|  | <b>At December 31,</b>        |                         |                         |                         |                         |
|--|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | <b>2015</b>                   | <b>2014</b>             | <b>2013</b>             | <b>2012</b>             | <b>2011</b>             |
|  | <b>(Dollars in Thousands)</b> |                         |                         |                         |                         |
| <b><u>Non-accruing loans :</u></b>                                 |                               |                         |                         |                         |                         |
| One-to four-family residential                                     | \$ 8,195                      | \$ 7,679                | \$ 4,829                | \$ 2,163                | \$ 15,511               |
| Construction   | 0                             | -                       | 521                     | 130                     | 4,040                   |
| Home equity  | 1,560                         | 943                     | 1,203                   | 1,564                   | 1,729                   |
| Commercial and multi-family  | 12,807                        | 10,355                  | 11,733                  | 13,043                  | 22,280                  |
| Commercial business  | 885                           | 627                     | 2,279                   | 3,159                   | 4,265                   |
| Consumer   | 0                             | —                       | —                       | —                       | -                       |
| <b>Total</b>   | <b><u>23,447</u></b>          | <b><u>19,604</u></b>    | <b><u>20,565</u></b>    | <b><u>20,059</u></b>    | <b><u>47,825</u></b>    |
| <b><u>Accruing loans delinquent more than 90 days :</u></b>        |                               |                         |                         |                         |                         |
| One-to four-family residential                                     | -                             | -                       | -                       | 1,223                   | -                       |
| Construction   | -                             | -                       | -                       | -                       | -                       |
| Home equity  | -                             | -                       | -                       | 227                     | -                       |
| Commercial and multi-family  | -                             | -                       | -                       | 1,386                   | -                       |
| Commercial business  | -                             | -                       | -                       | -                       | -                       |
| Consumer   | -                             | -                       | -                       | -                       | -                       |
| <b>Total</b>   | <b><u>-</u></b>               | <b><u>-</u></b>         | <b><u>-</u></b>         | <b><u>2,836</u></b>     | <b><u>-</u></b>         |
| <b>Total non-performing loans</b>                                  | <b>23,447</b>                 | <b>19,604</b>           | <b>20,565</b>           | <b>22,895</b>           | <b>47,825</b>           |
| <b>Foreclosed assets</b>   | <b><u>1,564</u></b>           | <b><u>3,485</u></b>     | <b><u>2,227</u></b>     | <b><u>3,274</u></b>     | <b><u>6,570</u></b>     |
| <b>Total non-performing assets</b>                                 | <b><u>\$ 25,011</u></b>       | <b><u>\$ 23,089</u></b> | <b><u>\$ 22,792</u></b> | <b><u>\$ 26,169</u></b> | <b><u>\$ 54,395</u></b> |
| <b>Total non-performing assets as a percentage of total assets</b> | <b><u>1.55 %</u></b>          | <b><u>1.77 %</u></b>    | <b><u>1.89 %</u></b>    | <b><u>2.23 %</u></b>    | <b><u>4.47 %</u></b>    |
| <b>Total non-performing loans as a percentage of total loans</b>   | <b><u>1.63 %</u></b>          | <b><u>1.60 %</u></b>    | <b><u>1.98 %</u></b>    | <b><u>2.45 %</u></b>    | <b><u>5.61 %</u></b>    |

For the year ended December 31, 2015, gross interest income which would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to \$ 1.1 million. We received and recorded \$ 326,000 in interest income for such loans for the year ended December 31, 2015.

*Classified Loans* . The Bank's Lending Policy contains a classification system which evaluates the overall risk of a problem loan. When a loan is classified and determined to be impaired, the Bank may establish specific allowances for loan losses. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. At December 31, 2015, the Bank reported \$37.4 million in classified assets. The loans classified are represented by loans secured either by one-to-four family or commercial real estate.

The Bank's internal classification system is defined by risk rating grades in accordance with guidance offered by the banking regulatory agencies. The grades of excellent, good, satisfactory and bankable with care (1-6 rating) are considered as a "pass" rating. The "classified" risk ratings of (7-9 rating) are detailed below.

*6 – Special Mention*- Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

*7 – Substandard* - Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. Loans on "nonaccrual" status. The loan needs special and corrective attention.

*8 – Doubtful* - Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

*9 – Loss* - Continuance as a bankable asset is not warranted. However, this does not preclude future attempts of recovery.

Effective January 2015, the Bank revised its' risk rating scale expanding the grades to a one to nine scale. Grades one through five will be a considered a pass grade where as six through nine will be considered a classified grade. The grades are determined through the uses of a qualitative matrix taking into account various characteristics of the loan such as quality of management, principals'/guarantors' character, balance sheet strength, collateral quality, cash flow coverage, position within the industry, loan structure and documentation.

*Allowances for Loan Losses* . A provision for loan losses is charged to operations based on management's evaluation of the losses that may be incurred in our loan portfolio. In addition, our determination of the amount of the allowance for loan losses is subject to review by the New Jersey Department of Banking and Insurance and the FDIC, as part of their examination process. After a review of the information available, our regulators might require the establishment of an additional allowance. Any increase in the loan loss allowance required by regulators would have a negative impact on our earnings. Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Bank's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated allowance for non-impaired loans, a specific allowance for impaired loans, and an unallocated portion.

The Bank consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Bank considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations

The methodology includes the segregation of the loan portfolio into two divisions of performing loans and loans determined to be impaired. Loans which are performing are evaluated homogeneously by loan class or loan type. The allowance of performing loans is evaluated based on historical loan experience, including consideration of peer loss analysis, with an adjustment for qualitative factors due to economic conditions in the market. Impaired loans can be loans which are more than 90 days delinquent, troubled debt restructured, part of our special residential program, in the process of foreclose, or a forced Bankruptcy plan. These loans are individually evaluated for loan loss either by current appraisal, estimated economic factor, or net present value. Management reviews the overall estimate for feasibility and bases the loan loss provision accordingly. As of December 31, 2015, non-accrual loans differed from the amount of total loans past due greater than 90 days due to troubled debt restructuring of loans which are maintained on non-accrual status for a minimum of six months until the borrower has demonstrated their ability to satisfy the terms of the restructured loan. The Bank also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and subject to change.

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The following table sets forth an analysis of the Bank's allowance for loan losses.

|  | Years Ended December 31, |                  |                  |                  |                  |
|--|--------------------------|------------------|------------------|------------------|------------------|
|  | 2015                     | 2014             | 2013             | 2012             | 2011             |
|  | (Dollars in Thousands)   |                  |                  |                  |                  |
| Balance at beginning of year   | \$ 16,151                | \$ 14,342        | \$ 12,363        | \$ 10,509        | \$ 8,417         |
| <b>Charge-offs :</b>   |                          |                  |                  |                  |                  |
| One- to four-family residential  | 67                       | 28               | 40               | 793              | 122              |
| Construction   | -                        | -                | 132              | 292              | 687              |
| Commercial business <sup>(1)</sup>   | 279                      | 208              | 374              | 612              | 24               |
| Commercial and multi-family  | 10                       | 1,143            | 123              | 1,360            | 1,173            |
| Home equity <sup>(2)</sup>   | 106                      | 56               | 302              | 24               | -                |
| Consumer   | -                        | 2                | -                | -                | 27               |
| Total charge-offs  | <u>462</u>               | <u>1,437</u>     | <u>971</u>       | <u>3,081</u>     | <u>2,033</u>     |
| Recoveries   | 73                       | 446              | 200              | 35               | 25               |
| Net charge-offs  | 389                      | 991              | 771              | 3,046            | 2,008            |
| Provisions charge to operations  | 2,280                    | 2,800            | 2,750            | 4,900            | 4,100            |
| Ending balance   | <u>\$ 18,042</u>         | <u>\$ 16,151</u> | <u>\$ 14,342</u> | <u>\$ 12,363</u> | <u>\$ 10,509</u> |
| Ratio of non-performing assets to total assets at the end of year                        | <u>1.55</u> %            | <u>1.77</u> %    | <u>1.89</u> %    | <u>2.23</u> %    | <u>4.47</u> %    |
| Allowance for loan losses as a percent of total loans outstanding                        | <u>1.25</u> %            | <u>1.32</u> %    | <u>1.38</u> %    | <u>1.32</u> %    | <u>1.23</u> %    |
| Ratio of net charge-offs during the period to total loans outstanding at end of the year | <u>0.03</u> %            | <u>0.08</u> %    | <u>0.09</u> %    | <u>0.33</u> %    | <u>0.24</u> %    |
| Ratio of net charge-offs during the period to non-performing loans                       | <u>1.66</u> %            | <u>5.06</u> %    | <u>3.75</u> %    | <u>13.30</u> %   | <u>4.20</u> %    |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

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*Allocation of the Allowance for Loan Losses* . The following table illustrates the allocation of the allowance for loan losses for each category of loan. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict our use of the allowance to absorb losses in other loan categories.

|   | December 31,     |  |                  |  |                  |  |                  |  |                  |  |
|---|------------------|--|------------------|--|------------------|--|------------------|--|------------------|--|
|   | 2015             |  | 2014             |  | 2013             |  | 2012             |  | 2011             |  |
|   | Amount           | Percent of Loans in each Category in Total Loans | Amount           | Percent of Loans in each Category in Total Loans | Amount           | Percent of Loans in each Category in Total Loans | Amount           | Percent of Loans in each Category in Total Loans | Amount           | Percent of Loans in each Category in Total Loans |
| <b>Originated loans:</b>                        |                  |  |                  |  |                  |  |                  |  |                  |  |
| Residential one-to-four family                  | \$ 2,107         | 11.68 %  | \$ 2,364         | 10.16 %  | \$ 1,729         | 9.41 %   | \$ 1,143         | 8.33 %   | \$ 1,086         | 6.41 %   |
| Commercial and Multi-family                     | 11,643           | 64.53 %  | 10,028           | 59.74 %  | 7,419            | 53.03 %  | 7,088            | 46.50 %  | 4,769            | 35.26 %  |
| Construction                                    | 722              | 4.00 %   | 1,080            | 5.99 %   | 700              | 3.60 %   | 866              | 2.38 %   | 183              | 1.53 %   |
| Commercial business <sup>(1)</sup>              | 1,749            | 9.69 %   | 876              | 4.42 %   | 1,295            | 5.08 %   | 576              | 5.05 %   | 795              | 6.10 %   |
| Home equity <sup>(2)</sup>                      | 369              | 2.05 %   | 333              | 2.46 %   | 363              | 2.76 %   | 284              | 2.77 %   | 329              | 3.06 %   |
| Consumer  | 879              | 4.87 %   | 449              | 0.18 %   | 3                | 0.05 %   | 41               | 0.06 %   | 10               | 0.04 %   |
| Unallocated                                     | 168              | 1 %  | 121              | -%   | 83               | 0.00 %   | 32               | 0.00 %   | -                | 0.00 %   |
| <b>Sub-total:</b>                               | <b>\$ 17,637</b> | <b>97.75 %</b>                                   | <b>\$ 15,251</b> | <b>82.95 %</b>                                   | <b>\$ 11,592</b> | <b>73.93 %</b>                                   | <b>\$ 10,030</b> | <b>65.09 %</b>                                   | <b>\$ 7,172</b>  | <b>52.40 %</b>                                   |
| <b>Acquired loans recorded at fair value:</b>   |                  |  |                  |  |                  |  |                  |  |                  |  |
| Residential one-to-four family                  | \$ 270           | 1.50 %   | \$ 417           | 6.61 %   | \$ 832           | 9.71 %   | \$ 719           | 13.03 %  | \$ 1,012         | 18.10 %  |
| Commercial and Multi-family                     | 17               | 0.09 %   | 102              | 7.76 %   | 1,744            | 12.16 %  | 963              | 15.96 %  | 559              | 19.74 %  |
| Construction                                    | -                | -%   | -                | -%   | 1                | 0.02 %   | 93               | 0.11 %   | 6                | 0.2 %  |
| Commercial business <sup>(1)</sup>              | -                | -%   | -                | 0.52 %   | 44               | 1.01 %   | 244              | 1.30 %   | 92               | 2.62 %   |
| Home equity <sup>(2)</sup>                      | 50               | 0.28 %   | 58               | 1.85 %   | 129              | 2.63 %   | 191              | 3.66 %   | 315              | 4.97 %   |
| Consumer  | -                | -%   | -                | 0.05 %   | -                | 0.09 %   | 18               | 0.11 %   | -                | 0.11 %   |
| Unallocated                                     | -                | -%   | -                | -%   | -                | 0.00 %   | -                | 0.00 %   | -                | 0.00 %   |
| <b>Sub-total</b>                                | <b>\$ 337</b>    | <b>1.87 %</b>                                    | <b>\$ 577</b>    | <b>16.79 %</b>                                   | <b>\$ 2,750</b>  | <b>25.62 %</b>                                   | <b>\$ 2,228</b>  | <b>34.17 %</b>                                   | <b>\$ 1,984</b>  | <b>45.74 %</b>                                   |
| <b>Acquired loans with deteriorated credit:</b> |                  |  |                  |  |                  |  |                  |  |                  |  |
| Residential one-to-four family                  | \$ 47            | 0.26 %   | \$ 64            | 0.13 %   | \$ -             | 0.21 %   | \$ 105           | 0.31 %   | \$ 581           | 1.08 %   |
| Commercial and Multi-family                     | 14               | 0.08 %   | 23               | 0.09 %   | -                | 0.20 %   | -                | 0.37 %   | 470              | 0.42 %   |
| Construction                                    | -                | -%   | -                | -%   | -                | 0.00 %   | -                | 0.00 %   | 115              | 0.26 %   |
| Commercial business <sup>(1)</sup>              | 4                | 0.02 %   | 233              | 0.03 %   | -                | 0.04 %   | -                | 0.03 %   | 154              | 0.03 %   |
| Home equity <sup>(2)</sup>                      | 3                | 0.02 %   | 3                | 0.01 %   | -                | 0.01 %   | -                | 0.01 %   | 33               | 0.07 %   |
| Consumer  | -                | -%   | -                | -%   | -                | 0.00 %   | -                | 0.00 %   | -                | 0.00 %   |
| Unallocated                                     | -                | -%   | -                | -%   | -                | 0.00 %   | -                | 0.00 %   | -                | 0.00 %   |
| <b>Sub-total:</b>                               | <b>\$ 68</b>     | <b>0.38 %</b>                                    | <b>\$ 323</b>    | <b>0.26 %</b>                                    | <b>\$ -</b>      | <b>0.46 %</b>                                    | <b>\$ 105</b>    | <b>0.72 %</b>                                    | <b>\$ 1,353</b>  | <b>1.86 %</b>                                    |
| <b>Total</b>                                    | <b>\$ 18,042</b> | <b>100.00 %</b>                                  | <b>\$ 16,151</b> | <b>100.00 %</b>                                  | <b>\$ 14,342</b> | <b>100.01 %</b>                                  | <b>\$ 12,363</b> | <b>99.98 %</b>                                   | <b>\$ 10,509</b> | <b>100.00 %</b>                                  |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

## **Investment Activities**

*Investment Securities* . We are required under federal regulations to maintain a minimum amount of liquid assets that may be invested in specified short-term securities and certain other investments. The level of liquid assets varies depending upon several factors, including: (i) the yields on investment alternatives, (ii) our judgment as to the attractiveness of the yields then available in relation to other opportunities, (iii) expectation of future yield levels, and (iv) our projections as to the short-term demand for funds to be used in loan origination and other activities. Investment securities, including mortgage-backed securities, are classified at the time of purchase, based upon management's intentions and abilities, as securities held-to-maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are classified as held-to-maturity and are stated at cost and adjusted for amortization of premium and accretion of discount, which are computed using the level yield method and recognized as adjustments of interest income. All other debt and equity securities are classified as available for sale to serve principally as a source of liquidity.

As of December 31, 2015, there were no securities classified as held-to-maturity. We had \$9.6 million in securities classified as available for sale, and no securities classified as trading or held-to-maturity. Securities classified as available for sale are reported for financial reporting purposes at the fair value with net changes in the fair value from period to period included as a separate component of stockholders' equity, net of income taxes. Changes in the fair value of securities classified as held-to-maturity or available for sale do not affect our income, unless we determine there to be an other-than-temporary impairment for those securities in an unrealized loss position. As of December 31, 2015, management concluded that all unrealized losses were temporary in nature since they are related to interest rate fluctuations rather than any underlying credit quality of the issuers. Additionally, the Bank has no plans to sell these securities and has concluded that it is unlikely it would have to sell these securities prior to the anticipated recovery of the unrealized losses.

In 2013, management decided to sell certain mortgage-backed securities that were issued by the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). While these securities were classified as held to maturity, with the intent to hold to maturity, ASC 320 (formerly FAS 115) allows sales of securities so designated, provided that a substantial portion (at least 85%) of the principal balance purchased has been amortized prior to the sale. Sales of securities that had been classified as held to maturity, and do not meet any of the safe harbor exemptions under ASC 320, would then require that all remaining securities be transferred to the available for sale category and the Company would be prohibited from using the held to maturity classification for at least a two-year period. In July 2014, the Company transferred all of its remaining held-to-maturity investments to the available-for-sale category. Management determined that it no longer had the positive intent to hold its investment in securities classified as held-to-maturity, and in July 2014, proceeds from the sales of securities previously classified as held to maturity totaled approximately \$99.2 million, and resulted in gross gains of \$2.76 million and gross losses of \$470,000. Sales of held-to-maturity securities that met the 85% threshold for the twelve months ended December 31, 2014 totaled approximately \$537,000, and resulted in gross gains of approximately \$40,000, and gross losses of approximately \$1,000. During the year ended December 31, 2013, proceeds from sales of securities held to maturity meeting the 85% threshold totaled approximately \$9.5 million and resulted in gross gains of \$401,000 and gross losses of \$23,000.

As of December 31, 2015, our investment policy allowed investments in instruments such as: (i) U.S. Treasury obligations; (ii) U.S. federal agency or federally sponsored enterprise obligations; (iii) mortgage-backed securities; and (iv) certificates of deposit. The Board of Directors may authorize additional investments.

As a source of liquidity and to supplement our lending activities, we have invested in residential mortgage-backed securities. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees or credit enhancements that reduce credit risk. Mortgage-backed securities can serve as collateral for borrowings and, through repayments, as a source of liquidity. Mortgage-backed securities represent a participation interest in a pool of single-family or other type of mortgages. Principal and interest payments are passed from the mortgage originators, through intermediaries (generally government-sponsored enterprises) that pool and repackage the participation interests in the form of securities, to investors, like us. The government-sponsored enterprises guarantee the payment of principal and interest to investors and include Freddie Mac, Ginnie Mae, and Fannie Mae.

Mortgage-backed securities typically are issued with stated principal amounts. The securities are backed by pools of mortgage loans that have interest rates that are within a set range and have varying maturities. The underlying pool of mortgages can be composed of either fixed rate or adjustable rate mortgage loans. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates. The interest rate risk characteristics of the underlying pool of mortgages (i.e., fixed rate or adjustable rate) and the prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages. Expected maturities will differ from contractual maturities due to scheduled repayments and because borrowers may have the right to call or prepay obligations with or without prepayment penalties.



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*Securities Portfolio* . The following table sets forth the carrying value of our securities portfolio and FHLB stock at the dates indicated.

|                                       | <b>At December 31,</b> |                  |                   |
|---------------------------------------|------------------------|------------------|-------------------|
|                                       | <b>2015</b>            | <b>2014</b>      | <b>2013</b>       |
|                                       | <b>(In Thousands)</b>  |                  |                   |
| <b>Securities available for sale:</b> |                        |                  |                   |
| Mortgage-backed securities            | \$ 9,623               | \$ 9,768         | -                 |
| Equity securities                     | -                      | -                | 1,104             |
| Total securities available for sale   | <u>9,623</u>           | <u>9,768</u>     | <u>1,104</u>      |
| <b>Securities held to maturity:</b>   |                        |                  |                   |
| Mortgage-backed securities            | -                      | -                | 112,859           |
| Municipal obligations                 | -                      | -                | 1,357             |
| Trust originated preferred security   | -                      | -                | -                 |
| Total securities held to maturity     | <u>-</u>               | <u>0</u>         | <u>114,216</u>    |
| FHLB stock                            | 10,711                 | 8,830            | 7,840             |
| Total investment securities           | <u>\$ 20,334</u>       | <u>\$ 18,598</u> | <u>\$ 123,160</u> |

The following table shows our securities held-to-maturity purchase sale and repayment activities for the years indicated.

|                                | <b>Years Ended December 31,</b> |                     |                    |
|--------------------------------|---------------------------------|---------------------|--------------------|
|                                | <b>2015</b>                     | <b>2014</b>         | <b>2013</b>        |
|                                | <b>(In Thousands)</b>           |                     |                    |
| <b>Purchases:</b>              |                                 |                     |                    |
| Fixed-rate                     | \$ -                            | \$ 3,034            | \$ 5,059           |
| <b>Sales:</b>                  |                                 |                     |                    |
| Fixed-rate                     | \$ -                            | \$ (96,850)         | \$ (9,115)         |
| <b>Principal Repayments:</b>   |                                 |                     |                    |
| Repayment of principal         | \$ -                            | \$ (10,372)         | \$ (44,957)        |
| (Decrease) in other items, net | -                               | (10,028)            | (1,419)            |
| Net (decrease)                 | <u>\$ -</u>                     | <u>\$ (114,216)</u> | <u>\$ (50,432)</u> |

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*Maturities of Securities Portfolio* . The following table sets forth information regarding the scheduled maturities, carrying values, estimated market values, and weighted average yields for the Bank's debt securities portfolio at December 31, 2015 by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

|                            | <b>December 31, 2015</b> |                      |                                    |                      |                                    |                      |                            |                      |                                    |                       |                      |
|----------------------------|--------------------------|----------------------|------------------------------------|----------------------|------------------------------------|----------------------|----------------------------|----------------------|------------------------------------|-----------------------|----------------------|
|                            | <u>Within one year</u>   |                      | <u>More than One to five years</u> |                      | <u>More than five to ten years</u> |                      | <u>More than ten years</u> |                      | <u>Total investment securities</u> |                       |                      |
|                            | <u>Carrying Value</u>    | <u>Average Yield</u> | <u>Carrying Value</u>              | <u>Average Yield</u> | <u>Carrying Value</u>              | <u>Average Yield</u> | <u>Carrying Value</u>      | <u>Average Yield</u> | <u>Fair Value</u>                  | <u>Carrying Value</u> | <u>Average Yield</u> |
|                            | (Dollars in Thousands)   |                      |                                    |                      |                                    |                      |                            |                      |                                    |                       |                      |
| Mortgage-backed securities | \$ -                     | -                    | \$ -                               | -                    | \$ 3,418                           | 2.22 %               | \$ 6,238                   | 2.86 %               | \$ 9,623                           | \$ 9,656              | 2.64 %               |

**Sources of Funds**

Our major external source of funds for lending and other investment purposes are deposits. Funds are also derived from the receipt of payments on loans, prepayment of loans, maturities of investment securities and mortgage-backed securities and borrowings. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

*Deposits* . Consumer and commercial deposits are attracted principally from within our primary market area through the offering of a selection of deposit instruments including demand, NOW, savings and club accounts, money market accounts, and term certificate accounts. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit, and the interest rate.

The interest rates paid by us on deposits are set at the direction of our senior management. Interest rates are determined based on our liquidity requirements, interest rates paid by our competitors, our growth goals, and applicable regulatory restrictions and requirements. As of December 31, 2015 and December 31, 2014 we had \$ 46.7 million and \$ 56.0 million in brokered deposits, respectively.

*Deposit Accounts* . The following table sets forth the dollar amount of deposits in the various types of deposit programs we offered as of the dates indicated.

|                           | December 31,             |              |                          |              |                          |            |
|---------------------------|--------------------------|--------------|--------------------------|--------------|--------------------------|------------|
|                           | 2015                     |              | 2014                     |              | 2013                     |            |
|                           | Weighted<br>Average Rate | Amount       | Weighted<br>Average Rate | Amount       | Weighted<br>Average Rate | Amount     |
| (Dollars in Thousands)    |                          |              |                          |              |                          |            |
| Demand                    | -                        | \$ 130,920   | —                        | \$ 127,308   | —                        | \$ 107,613 |
| NOW                       | 0.38                     | 226,137      | 0.21                     | 155,044      | 0.19                     | 148,804    |
| Savings and club accounts | 0.16                     | 250,936      | 0.15                     | 283,872      | 0.14                     | 264,319    |
| Money market              | 0.40                     | 54,915       | 0.30                     | 49,709       | 0.30                     | 67,153     |
| Certificates of deposit   | 1.18                     | 611,021      | 1.07                     | 412,623      | 1.21                     | 380,781    |
| Total                     | 0.73                     | \$ 1,273,929 | 0.59                     | \$ 1,028,556 | 0.65                     | \$ 968,670 |

(1) Represents the average rate paid during the year.

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The following table sets forth our deposit flows during the years indicated.

|                                       | <b>Years Ended December 31,</b> |              |             |
|---------------------------------------|---------------------------------|--------------|-------------|
|                                       | <b>2015</b>                     | <b>2014</b>  | <b>2013</b> |
|                                       | (Dollars in Thousands)          |              |             |
| Beginning of year                     | \$ 1,028,556                    | \$ 968,670   | \$ 940,786  |
| Net deposits                          | 238,100                         | 54,693       | 22,256      |
| Interest credited on deposit accounts | 7,273                           | 5,193        | 5,628       |
| Total increase in deposit accounts    | 245,373                         | 59,886       | 27,884      |
| Ending balance                        | \$ 1,273,929                    | \$ 1,028,556 | \$ 968,670  |
| Percent increase                      | 23.86 %                         | 6.18 %       | 2.88 %      |

*Jumbo Certificates of Deposit*. As of December 31, 2015, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$ 435.6 million. The following table indicates the amount of our certificates of deposit of \$100,000 or more by time remaining until maturity.

| <b>Maturity Period</b>      | <b>At December 31, 2015</b> |         |
|-----------------------------|-----------------------------|---------|
|                             | (In Thousands)              |         |
| Within three months         | \$                          | 51,059  |
| Three through twelve months |                             | 236,248 |
| Over twelve months          |                             | 148,328 |
| Total                       | \$                          | 435,635 |

The following table presents, by rate category, our certificate of deposit accounts as of the dates indicated.

|                               | <b>At December 31,</b> |                |               |                |               |                |
|-------------------------------|------------------------|----------------|---------------|----------------|---------------|----------------|
|                               | <b>2015</b>            |                | <b>2014</b>   |                | <b>2013</b>   |                |
|                               | <b>Amount</b>          | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> |
|                               | (Dollars in Thousands) |                |               |                |               |                |
| Certificate of deposit rates: |                        |                |               |                |               |                |
| 0.00% - 0.99%                 | \$ 185,401             | 30.34 %        | \$ 224,148    | 54.32 %        | \$ 206,648    | 54.27 %        |
| 1.00% - 1.99%                 | 347,930                | 56.94          | 109,109       | 26.44          | 84,991        | 22.32          |
| 2.00% - 2.99%                 | 77,590                 | 12.70          | 75,978        | 18.41          | 59,777        | 15.7           |
| 3.00% - 3.99%                 | 100                    | 0.02           | 3,160         | 0.77           | 29,365        | 7.71           |
| 4.00% - 4.99%                 | -                      | -              | 228           | 0.06           | -             | -              |
| 5.00% - 5.99%                 | -                      | -              | -             | -              | -             | -              |
| Total                         | \$ 611,021             | 100.00 %       | \$ 412,623    | 100.00 %       | \$ 380,781    | 100.00 %       |

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The following table presents, by rate category, the remaining period to maturity of certificate of deposit accounts outstanding as of December 31, 2015.

|                | <b>Maturity Date</b>      |                              |                              |                         | <b>Total</b>      |
|----------------|---------------------------|------------------------------|------------------------------|-------------------------|-------------------|
|                | <b>1 Year<br/>or Less</b> | <b>Over 1<br/>to 2 Years</b> | <b>Over 2<br/>to 3 Years</b> | <b>Over<br/>3 Years</b> |                   |
| (In Thousands) |                           |                              |                              |                         |                   |
| Interest rate: |                           |                              |                              |                         |                   |
| 0.00% - 0.99%  | \$ 169,086                | \$ 14,719                    | \$ 1,485                     | \$ 111                  | \$ 185,401        |
| 1.00% - 1.99%  | 219,278                   | 72,914                       | 26,555                       | 29,183                  | 347,930           |
| 2.00% - 2.99%  | 23,293                    | 20,001                       | 16,692                       | 17,604                  | 77,590            |
| 3.00% - 3.99%  | -                         | -                            | 100                          | -                       | 100               |
| 4.00% - 4.99%  | -                         | -                            | -                            | -                       | 0                 |
| Total          | <u>\$ 411,657</u>         | <u>\$ 107,634</u>            | <u>\$ 44,832</u>             | <u>\$ 46,898</u>        | <u>\$ 611,021</u> |

**Borrowings.** The Overnight Advance Program permits the Bank to borrow overnight up to its maximum borrowing capacity at the Federal Home Loan Bank of New York ("FHLB"). At December 31, 2015, the Bank's total credit exposure cannot exceed 50% of its total assets, or \$ 809.2 million, based on the borrowing limitations outlined in the FHLB member products guide. The total credit exposure limit to 50% of total assets is recalculated each quarter. Additionally, at December 31, 2015 we had a floating rate junior subordinated debenture of \$ 4.1 million which has been callable at the Bank's option since June 17, 2009, and quarterly thereafter.

The following table sets forth information concerning balances and interest rates on our short-term borrowings at the dates and for the years indicated.

|   | <b>At or For the Years Ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <u>2015</u>                                   | <u>2014</u> | <u>2013</u> |
| (Dollars in Thousands)                        |   |             |             |
| Balance at end of year                        | \$ -  | \$ 26,000   | \$ 18,000   |
| Average balance during year                   | \$ 595  | \$ 13,591   | \$ 133      |
| Maximum outstanding at any month end          | \$ 3,000                                      | \$ 45,500   | \$ 25,800   |
| Weighted average interest rate at end of year | -%  | 0.38 %      | 0.37 %      |
| Average interest rate during year             | 0.37 %  | 0.32 %      | 0.40 %      |

**Employees**

At December 31, 2015, we had 331 full-time equivalent employees. None of our employees is represented by a collective bargaining group. We believe that our relationship with our employees is good.

**Subsidiaries**

We have three non-bank subsidiaries. BCB Holding Company Investment Corp. was established in 2004 for the purpose of holding and investing in securities. Only securities authorized to be purchased by BCB Community Bank are held by BCB Holding Company Investment Corp. At December 31, 2015, this company held \$ 9.6 million in securities. With the merger with Pamrapo Bancorp. Inc., we acquired Pamrapo Service Corporation which has been inactive since May 2010. BCB New York Management, Inc. was established in October 2012 for the purpose of holding and investing in various loan products and investing in securities. For the year ended December 31, 2015, there was no activity related to this subsidiary.

## **Supervision and Regulation**

Bank holding companies and banks are extensively regulated under both federal and state law. These laws and regulations are primarily intended to protect depositors and the deposit insurance funds, rather than to protect shareholders and creditors. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on the Company or the Bank.

Set forth below is a summary of certain material and regulatory requirements applicable to the Company and the Bank. These and any other changes in applicable laws or regulations, whether by Congress or regulatory agencies, may have a material effect on the business and prospects of the Company and the Bank. These and any other changes in applicable laws or regulations, whether by Congress or regulatory agencies, may have a material effect on the business and prospects of the Company and the Bank.

### **The Dodd-Frank Act**

The Dodd-Frank Act changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act eliminated the Office of Thrift Supervision and requires that federal savings associations be regulated by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve Board ("Federal Reserve") to supervise and regulate all savings and loan holding companies.

In July, 2013, the FDIC and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets, to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million (which is currently proposed to increase to \$1.0 billion) or more, and top-tier savings and loan holding companies ("banking organizations"). Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), sets a uniform minimum Tier 1 leverage ratio of 4.0%, increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% 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 final rule also limits a banking organization's 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. The final rule became effective for us on January 1, 2015. The capital conservation buffer requirement is being phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

In addition, the Dodd-Frank Act excludes proceeds of trust preferred securities from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months. These new leverage and capital requirements must take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives the state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. In accordance with the Dodd-Frank Act, the FDIC has promulgated rules under which assessments are based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. Lastly, the Dodd-Frank Act increases stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate and solicit votes for their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

### **Bank Holding Company Regulation**

As a bank holding company registered under the Bank Holding Company Act of 1956, as amended, the Company is subject to the regulation and supervision applicable to bank holding companies by the Federal Reserve. The Company is also subject to the provisions of the New Jersey Banking Act of 1948 (the "New Jersey Banking Act") and the regulations of the Commissioner of the New Jersey Department of Banking and Insurance ("Commissioner"). The Company is required to file reports with the Federal Reserve and the Commissioner regarding its business operations and those of its subsidiaries.

**Federal Regulation.** The Bank Holding Company Act requires, among other things, the prior approval of the Federal Reserve in any case where a bank holding company proposes to (i) acquire all or substantially all of the assets of any other bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such company's voting shares) or (iii) merge or consolidate with any other bank holding company. The Federal Reserve will not approve any acquisition, merger, or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial resources and future prospects of the companies and the banks concerned, together with the convenience and needs of the community to be served, when reviewing acquisitions or mergers.

The Bank Holding Company Act generally prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be properly incident thereto.

The Bank Holding Company Act has been amended to permit bank holding companies and banks, which meet certain capital, management and Community Reinvestment Act standards, to engage in a broader range of non-banking activities. In addition, bank holding companies which elect to become financial holding companies may engage in certain banking and non-banking activities without prior Federal Reserve approval. At this time, the Company has not elected to become a financial holding company, as it does not engage in any activities not permissible for banks.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance funds in the event the depository institution is

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in danger of default. Under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The Federal Reserve also has the authority under the Bank Holding Company Act to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

As described above, effective January 1, 2015, the Company became subject to regulatory capital requirements and guidelines imposed by the Federal Reserve, which are substantially similar to those imposed by the FDIC on depository institutions within their jurisdictions. If the capital requirements were effective at December 31, 2014, the Company would have been considered to be a well-capitalized Bank Holding Company.

The Federal Reserve may set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

**New Jersey Regulation.** Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company and must file certain reports with the Commissioner and is subject to examination by the Commissioner. Under the New Jersey Banking Act, as well as Federal law, no person may acquire control of the Company or the Bank without first obtaining approval of such acquisition of control from the Federal Reserve and the Commissioner.

### **Bank Regulation**

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and examination of the Commissioner. As a state-chartered Bank, the Bank is subject to the regulation, supervision and examination of the FDIC as its primary federal regulator. The regulations of the FDIC and the Commissioner impact virtually all of our activities, including the minimum level of capital we must maintain, our ability to pay dividends, our ability to expand through new branches or acquisitions and various other matters.

**Insurance of Deposit Accounts.** The FDIC insures deposits at FDIC insured financial institutions such as the Bank. Deposit accounts in the Bank are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts.

Under the FDIC's current risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Assessments are based on an institution's risk category and certain specified adjustments with higher assessments applying to institutions deemed most risky.

In February 2011, the FDIC published a final rule under the Dodd-Frank Act to reform the deposit insurance assessment system. The rule redefined the assessment base used for calculating deposit insurance assessments effective April 1, 2011. Under the new rule, assessments are based on an institution's average consolidated total assets minus average tangible equity as opposed to total deposits. Since the new base is much larger than the current base, the FDIC also lowered assessment rates so that the total amount of revenue collected from the industry is not significantly altered.

Insurance of deposits may be terminated by the FDIC upon a finding that an 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. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the year ended December 31, 2014, we paid \$71,000 in FICO assessments.

**Capital Adequacy Guidelines.** The FDIC has promulgated risk-based capital rules, which are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these rules, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. These rules are substantially similar to the Federal Reserve rules discussed above.

In addition to the risk-based capital rules, the FDIC has adopted a minimum Tier 1 capital (leverage) ratio. This measurement is substantially similar to the Federal Reserve leverage capital measurement discussed above. At December 31, 2015, the Bank's ratio of total capital to risk-weighted assets was 12.06%. Our Tier 1 capital to risk-weighted assets was 10.81%, and our Tier 1 capital to average assets was 8.61%.

In July 2013, the FDIC and the Federal Reserve approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Bank and the Company. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a "capital conservation buffer" of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

**Transactions with Affiliates.** Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act and Regulation W (i) limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary



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as those provided to non-affiliates. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act. The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws assuming such loans are also permitted under the law of the institution’s chartering state. Under such laws, the Bank’s authority to extend credit to executive officers, directors and 10% shareholders (“insiders”), as well as entities such person’s control, is limited. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank’s capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. 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 insiders over other employees. Loans to executive officers are further limited by specific categories.

The Dodd-Frank Act requires that the Federal Reserve make certain changes to the regulations governing transactions with affiliates described above. It is uncertain when such changes will become effective.

**Dividends** . The Bank may pay dividends as declared from time to time by the Board of Directors out of funds legally available, subject to certain restrictions. Under the New Jersey Banking Act of 1948, as amended, the Bank may not pay a cash dividend unless, following the payment, the Bank’s capital stock will be unimpaired and the Bank will have a surplus of no less than 50% of the Bank capital stock or, if not, the payment of the dividend will not reduce the surplus. In addition, the Bank cannot pay dividends in amounts that would reduce the Bank’s capital below regulatory imposed minimums.

### **Federal Securities Laws**

The Company’s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (“Exchange Act”). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Under the Exchange Act, we are required to conduct a comprehensive review and assessment of the adequacy of our existing financial systems and controls. For the year ended December 31, 2015, our auditors are required to audit our internal control over financial reporting.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. We have prepared policies, procedures and systems designed to ensure compliance with these regulations.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to conduct a comprehensive review and assessment of the adequacy of our existing financial systems and controls.

## **AVAILABILITY OF ANNUAL REPORT**

Our Annual Report is available on our website, [www.bcbcommunitybank.com](http://www.bcbcommunitybank.com). We will also provide our Annual Report on Form 10-K free of charge to shareholders who request a copy in writing from the Corporate Secretary at 104-110 Avenue C, Bayonne, New Jersey 07002.

### **ITEM 1A. RISK FACTORS**

**Our loan portfolio consists of a high percentage of loans secured by commercial real estate and multi-family real estate. These loans are riskier than loans secured by one- to four-family properties.**

At December 31, 2015, \$1.06 billion, or 73.8%, of our loan portfolio consisted of commercial and multi-family real estate loans. We intend to continue to emphasize the origination of these types of loans. These loans generally expose a lender to greater risk of nonpayment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation and income stream of the collateral that is pledged. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

Commercial loans and commercial real estate loans generally carry larger balances and can involve a greater degree of financial and credit risk than other loans. As a result, banking regulators continue to give greater scrutiny to lenders with a high concentration of commercial real estate loans in their portfolios, such as us, and such lenders are expected to implement stricter underwriting standards, internal controls, risk management policies, and portfolio stress testing, as well as higher capital levels and loss allowances. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. During the recent economic downturn, financial institutions with high commercial real estate loan concentrations were more susceptible to failure. If we cannot effectively manage the risk associated with our high concentration of commercial real estate loans, our financial condition and results of operations may be adversely affected.

**We may not be able to successfully maintain and manage our growth.**

The Company has progressed on an organic branching initiative which is intended to mitigate the location risk of our strong Hudson County concentration, to develop our branch infrastructure in a manner more consistent with the expansion of lending markets and to fill in and grow our branch footprint in a more uniform and coherent fashion, which previously had grown predominately through merger and acquisition activity. To this end, the Company opened a branch in Staten Island, New York and Rutherford, New Jersey in February, 2015. The Company is also looking to open several more branches within the next year.

We cannot be certain as to our ability to manage increased levels of assets and liabilities. We may be required to make additional investments in equipment and personnel to manage higher asset levels and loans balances, which may adversely impact our efficiency ratio, earnings and shareholder returns.

**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.**

Our loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. We may experience significant credit losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions prove to be incorrect, our allowance for loan losses may not cover losses in our loan portfolio at the date of the financial statements. Material additions to our allowance would materially decrease our net income. At December 31, 2015, our allowance for loan losses totaled \$ 18.0 million, representing 1.25 % of total loans or 76.95 % of non-performing loans.

While we have only been operating for 15 years, we have experienced significant growth in our loan portfolio, particularly our loans secured by commercial real estate. Although we believe we have underwriting standards to manage normal lending risks, and although we had \$ 25.0 million, or 1.55 % of total assets consisting of non-performing assets at December 31, 2015, it is difficult to assess the future performance of our loan portfolio due to the relatively recent origination of many of these loans. We can give you no assurance that our non-performing loans will not increase or that our non-performing or delinquent loans will not adversely affect our future performance.

In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

**The asset quality of our loan portfolio may deteriorate if the economy falters, resulting in a portion of our loans failing to perform in accordance with their terms. Under such circumstances our profitability will be adversely affected.**

At December 31, 2015, we had \$53.8 million in classified loans of which none were classified as doubtful, \$38.0 million were classified as substandard and \$15.8 million were classified as special mention. In addition, at that date we had \$19.4 million in non-accruing loans. We have adhered to stringent underwriting standards in the origination of loans, but there can be no assurance that loans that we originated will not experience asset quality deterioration as a result of a downturn in the local economy. Should our local economy weaken, our asset quality may deteriorate resulting in losses to the Company.

**We depend primarily on net interest income for our earnings rather than fee income.**

Net interest income is the most significant component of our operating income. We have significantly less reliance on traditional sources of fee income utilized by some community banks, such as fees from sales of insurance, securities or investment advisory products or services. For the years ended December 31, 2015 and 2014, our net interest income was \$ 53.5 million and \$ 49.9 million, respectively. The amount of our net interest income is influenced by the overall interest rate environment, competition, and the amount of interest-earning assets relative to the amount of interest-bearing liabilities. In the event that one or more of these factors were to result in a decrease in our net interest income, we do not have significant sources of fee income to make up for decreases in net interest income.

**Changes in interest rates could hurt our profits.**

Our profitability, like most financial institutions, depends to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Accordingly, our results of operations depend largely on movements in market interest rates and our ability to manage our interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond our control, may affect interest rates.

If interest rates rise, and if rates on our deposits reprice upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread, which would have a negative effect on our profitability. Conversely, decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Further, a prolonged period of exceptionally low market interest rates, such as we are currently experiencing, and the Federal Reserve has indicated it intends to maintain, limits our ability to lower our interest expense, while the average yield on our interest-earning assets may continue to decrease as our loans reprice or are originated at these low market rates. Accordingly, our net interest income may continue to decrease, which may have an adverse effect on our profitability. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

While we pursue an asset/liability strategy designed to mitigate our risk from changes in interest rates, changes in interest rates can still have a material adverse effect on our financial condition and results of operations. Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. For further discussion of how changes in interest rates could impact us, see "Item 7A. – Quantitative and Qualitative Disclosure About Market Risk."

**The building of market share through de novo branching and expansion of our commercial real estate and multi-family lending capacity could cause our expenses to increase faster than revenues.**

We intend to continue to build market share through de novo branching and expansion of our commercial real estate and multi-family lending capacity. Since January 1, 2014, we have opened four de novo branches including the two in 2014 and two in 2015. Pursuant to our de novo branch expansion strategy, during the two year period ended December 31, 2015 we hired 82 new full-time equivalent employees, primarily in the areas of business development, loan administration and customer service. There are considerable costs involved in opening branches and expansion of lending capacity that generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, our business expansion may not be successful after establishment of the new branches.

**The Dodd-Frank Act, among other things, created a new CFPB, tightened capital standards and will continue to result in new laws and regulations that are expected to increase our costs of operations.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has significantly changed the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various

federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, some of the details and impact of the Dodd-Frank Act may not yet be known. Our operating and compliance costs have materially increased and it is expected that the legislation and implementing regulations will continue to increase our operating and compliance costs.

The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

Effective July 21, 2011, the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts, which could result in an increase in our interest expense.

The Dodd-Frank Act also broadens the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the “Volcker Rule”). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission and from engaging in hedging activities that do not hedge a specific identified risk. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities, including the Company, unless an exception applies.

**We have become subject to more stringent capital requirements, which may adversely impact our return on equity, or constrain us from paying dividends or repurchasing shares.**

In July 2013, the FDIC and the Federal Reserve approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Bank and the Company. The final rule implements the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes “capital” for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a “capital conservation buffer” of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for the Bank and the Company could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were to be unable to comply with such requirements.

**New regulations could restrict our ability to originate and sell mortgage loans.**

The CFPB has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower’s ability to repay a mortgage. Loans that meet this “qualified mortgage” definition will be presumed to have complied with the new ability-to- repay standard. Under the CFPB’s rule, a “qualified mortgage” loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less “bona fide discount points” for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a “qualified mortgage,” a borrower’s total debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The CFPB’s rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could limit our growth or profitability.

**Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.**

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches and cyber-attacks), but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we take protective measures, the security of our computer systems, software, and networks

may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have an impact on information security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

There have been increasing efforts on the part of third parties, including through cyber attacks, to breach data security at financial institutions or with respect to financial transactions. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data. In addition, because the techniques used to cause such security breaches change frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. The ability of our customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

**The Bank's reliance on brokered deposits could adversely affect its liquidity and operating results.**

Among other sources of funds, we rely on brokered deposits to provide funds with which to make loans and provide for other liquidity needs. On December 31, 2015, brokered deposits totaled \$46.7 million, or approximately 3.7% of total deposits. The Bank's primary source for brokered money market deposits is CDARS.

Generally brokered deposits may not be as stable as other types of deposits. In the future, those depositors may not replace their brokered deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or other sources of funds. Not being able to maintain or replace those deposits as they mature would adversely affect our liquidity. Paying higher deposit rates to maintain or replace brokered deposits would adversely affect our net interest margin and operating results.

**Strong competition within our market area may limit our growth and profitability.**

Competition is intense within the banking and financial services industry in New Jersey and New York. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources, higher lending limits and offer services that we do not or cannot provide. This competition makes it more difficult for us to originate new loans and retain and attract new deposits. Price competition for loans may result in originating fewer loans, or earning less on our loans and price competition for deposits may result in a reduction of our deposit base or paying more on our deposits.

**Adverse events in New Jersey, where our business is concentrated, could adversely affect our results and future growth.**

Our business, the location of our branches and the real estate collateralizing our real estate loans are concentrated in New Jersey. As a result, we are exposed to geographic risks. The occurrence of an economic downturn in New Jersey, or adverse changes in laws or regulations in New Jersey, could impact the credit quality of our assets, the business of our customers and our ability to expand our business.

Our success significantly depends upon the growth in population, income levels, deposits and housing in our market area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected. In addition, the economies of the communities in which we operate are substantially dependent on the growth of the economy in the State of New Jersey. To the extent that economic conditions in New Jersey are unfavorable or do not continue to grow as projected, the economy in our market area would be adversely affected. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our market area if they do occur.

In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of December 31, 2015, approximately 96% of our total loans were secured by real estate. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio. In addition, a significant percentage of our loans are to individuals and businesses in New Jersey. Our business customers may not have customer bases that are as diverse as businesses serving regional or national markets. Consequently, any decline in the economy of our market area could have an adverse impact on our revenues and financial condition. In particular, we may experience increased loan delinquencies, which could result in a higher provision for loan losses and increased charge-offs. Any sustained period of increased non-payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, results of operations and financial condition.

**We operate in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.**

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on us and our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our results of operations and financial condition.

Like other bank holding companies and financial institutions, we must comply with significant anti-money laundering and anti-terrorism laws. Under these laws, we are required, among other things, to enforce a customer identification program and file currency transaction and suspicious activity reports with the federal government. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws or make required reports. Because we operate our business in the highly urbanized greater Newark/New York City metropolitan area, we may be at greater risk of scrutiny by government regulators for compliance with these laws.

**We could be adversely affected by failure in our internal controls.**

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of us. We continue to devote a significant amount of effort, time and resources to continually strengthening our controls and ensuring compliance with complex accounting standards and banking regulations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Bank conducts its business through an executive office, one administrative office, and 15 branch offices. Eight offices have drive-up facilities. The Bank has 20 automatic teller machines at its branch facilities and two other off-site locations. The following table sets forth information relating to each of the Bank's offices as of December 31, 2015. The total net book value of the Bank's premises and equipment at December 31, 2015 was \$15.7 million.

| <u>Location</u>                         | <u>Year Office Opened</u> | <u>Net Book Value</u> |
|---|---------------------------|-----------------------|
|   |                           | (In Thousands)        |
| <b>Executive Office</b>                 |                           |                       |
| 104-110 Avenue C                        |                           |                       |
| Bayonne, New Jersey                     | 2003                      | \$ 2,680              |
| <b>Administrative and Other Offices</b> |                           |                       |
| 591-597 Avenue C                        |                           |                       |
| Bayonne, New Jersey                     | 2010                      | 2,583                 |
| 3499 Route 9 North Suite 2A             |                           | (1)                   |
| Freehold, New Jersey                    | 2012                      | 11                    |
| 27 West 18th Street                     |                           | (1)                   |
| Bayonne, New Jersey                     | 2014                      | 211                   |
| <b>Branch Offices</b>                   |                           |                       |
| 860 Broadway                            |                           | (1)                   |
| Bayonne, New Jersey                     | 2000                      | 867                   |
| 510 Broadway                            |                           | (1)                   |
| Bayonne, New Jersey                     | 2003                      | 365                   |
| 401 Washington St.                      |                           | (1)                   |
| Hoboken, New Jersey                     | 2010                      | 34                    |
| 987 Broadway                            |                           |                       |
| Bayonne, New Jersey                     | 2010                      | 560                   |
| 473 Spotswood Englishtown Rd            |                           |                       |
| Monroe Township, New Jersey             | 2010                      | 189                   |
| 611 Avenue C                            |                           |                       |
| Bayonne, New Jersey                     | 2010                      | 2,009                 |
| 181 Avenue A                            |                           | (1)                   |
| Bayonne, New Jersey                     | 2010                      | 36                    |
| 211-A Washington Street                 |                           | (1)                   |
| Jersey City, New Jersey                 | 2010                      | 9                     |
| 200 Valley Street                       |                           |                       |
| S. Orange, New Jersey                   | 2011                      | 1,269                 |
| 34 Main Street                          |                           | (1)                   |
| Woodbridge, New Jersey                  | 2011                      | 72                    |
| 1379 St. George Avenue                  |                           | (1)                   |
| Colonia, New Jersey                     | 2014                      | 148                   |
| 165 Passaic Avenue                      |                           | (1)                   |
| Fairfield, New Jersey                   | 2014                      | 100                   |
| 354 New Dorp Lane                       |                           | (1)                   |
| Staten Island, New York                 | 2015                      | 623                   |
| 190 Park Avenue                         |                           | (1)                   |
| Rutherford, New Jersey                  | 2015                      | 532                   |
| <b>Summary</b>                          |                           |                       |
| Net book value of properties            |                           | 12,298 (2)            |
| Furnishings and equipment               |                           | 3,429                 |
| Total premises and equipment            |                           | \$ 15,727             |

(1) Leased Property

(2) Includes off-site ATMs

## **ITEM 1. LEGAL PROCEEDINGS**

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. Other than as set forth below, as of December 31, 2015, we were not involved in any material legal proceedings the outcome of which, if determined in a manner adverse to the Company, would have a material adverse effect on our financial condition or results of operations.

The Company, as the successor to Pamrapo Bancorp, Inc., and in its own corporate capacity, is a named defendant in a shareholder class action lawsuit, Kube v. Pamrapo Bancorp, Inc., et al., filed in the Superior Court of New Jersey, Hudson County, Chancery Division, General Equity (the "Action"). On May 9, 2012, the Company and the other defendants obtained partial summary judgment, dismissing three of the five Counts of the plaintiff's Complaint. On May 9, 2012, plaintiff's counsel was awarded interim legal fees of approximately \$350,000. This award of interim legal fees to plaintiff's counsel was satisfied in October 2015.

On September 21, 2015, the court entered an Order and Final Judgment ("Judgment"). Pursuant to the Judgment, the Stipulation of Settlement ("Stipulation") agreed to by the plaintiff class, the Company and the remaining defendants was approved. In consideration for the full settlement and release of all Released Claims (as that term is defined in the Stipulation) and the dismissal of the Action with prejudice as against the Company and the remaining defendants, the Company, on its own behalf and on behalf of the remaining defendants, would pay \$1.95 million to the Class. This settlement amount was paid in November 2015.

The Company and the other defendants in the Action ("Plaintiffs") have brought a lawsuit ("Carrier Suit") against Progressive Insurance Company ("Progressive"), the Directors' and Officers' Liability insurance carrier for Pamrapo Bancorp, Inc., at the time of its merger with the Company on July 6, 2010, and Colonial American Insurance Company ("Colonial"), the Directors' and Officers' Liability insurance carrier for the Company at the time of the merger. The Carrier Suit seeks, among other claims, indemnification, payment of and/or contribution toward the above settlement, payment of and/or contribution toward the above award of interim attorney's fees to the plaintiff class's counsel, payment of and/or contribution toward any future award of attorney's fees to the plaintiff class's counsel, and reimbursement of the attorney's fees and defense costs incurred by the Plaintiffs in defending the Action and pursuing the Carrier Suit.

Progressive made a motion to dismiss the Carrier Suit in 2014. The Plaintiffs opposed that motion. That motion was administratively terminated by order of the court, dated December 3, 2014. By order of the court, dated December 3, 2014, the Plaintiffs' motion to file an amended complaint was granted.

On or about January 6, 2015, Progressive again made a motion to dismiss the Carrier Suit. The Plaintiffs opposed that motion. That motion was denied by oral decision on October 22, 2015, and by written Order, dated January 20, 2016.

A Mediation session ("Mediation") was held on March 11, 2015, among the parties. Following the Mediation, the Plaintiffs and Colonial agreed to settle the Plaintiffs' claims against Colonial for \$1.75 million. A Settlement Agreement and Release, dated June 30, 2015, was entered into by the Plaintiffs and Colonial. The Plaintiffs received the settlement amount of \$1.75 million from Colonial on July 9, 2015.

The Plaintiffs and Progressive did not settle their respective claims at the Mediation. The Carrier Suit continues with respect to these parties. Initial discovery has been exchanged between the parties. The court has directed that the parties engage in "expedited discovery." The parties will be allowed to make cross-motions for summary judgment upon the conclusion of "expedited discovery." The court has encouraged the parties to pursue another mediation session. The Plaintiffs are vigorously pursuing full recovery.

## **ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.



**PART II**

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

The Company's common stock trades on the Nasdaq Global Market under the symbol "BCBP."

The following table sets forth the high and low closing prices for the Company's common stock for the periods indicated. As of December 31, 2015, there were 11,209,324 shares of the Company's common stock outstanding. At March 9, 2016, the Company had approximately 2,000 stockholders of record.

| <b>Fiscal 2015</b>               |    | <b>High</b> |    | <b>Low</b> | <b>Cash Dividend Declared</b> |
|----------------------------------|----|-------------|----|------------|-------------------------------|
| Quarter Ended December 31, 2015  | \$ | 11.33       | \$ | 9.97       | \$ 0.14                       |
| Quarter Ended September 30, 2015 |    | 12.12       |    | 9.88       | 0.14                          |
| Quarter Ended June 30, 2015      |    | 12.50       |    | 11.75      | 0.14                          |
| Quarter Ended March 31, 2015     |    | 12.46       |    | 11.25      | 0.14                          |

| <b>Fiscal 2014</b>               |    | <b>High</b> |    | <b>Low</b> | <b>Cash Dividend Declared</b> |
|----------------------------------|----|-------------|----|------------|-------------------------------|
| Quarter Ended December 31, 2014  | \$ | 13.30       | \$ | 11.72      | \$ 0.14                       |
| Quarter Ended September 30, 2014 |    | 13.50       |    | 12.60      | 0.14                          |
| Quarter Ended June 30, 2014      |    | 13.75       |    | 13.01      | 0.14                          |
| Quarter Ended March 31, 2014     |    | 13.57       |    | 12.77      | 0.12                          |

Please see "Item 1. Business—Bank Regulation—Dividends" for a discussion of restrictions on the ability of the Bank to pay the Company dividends.

**Compensation Plans**

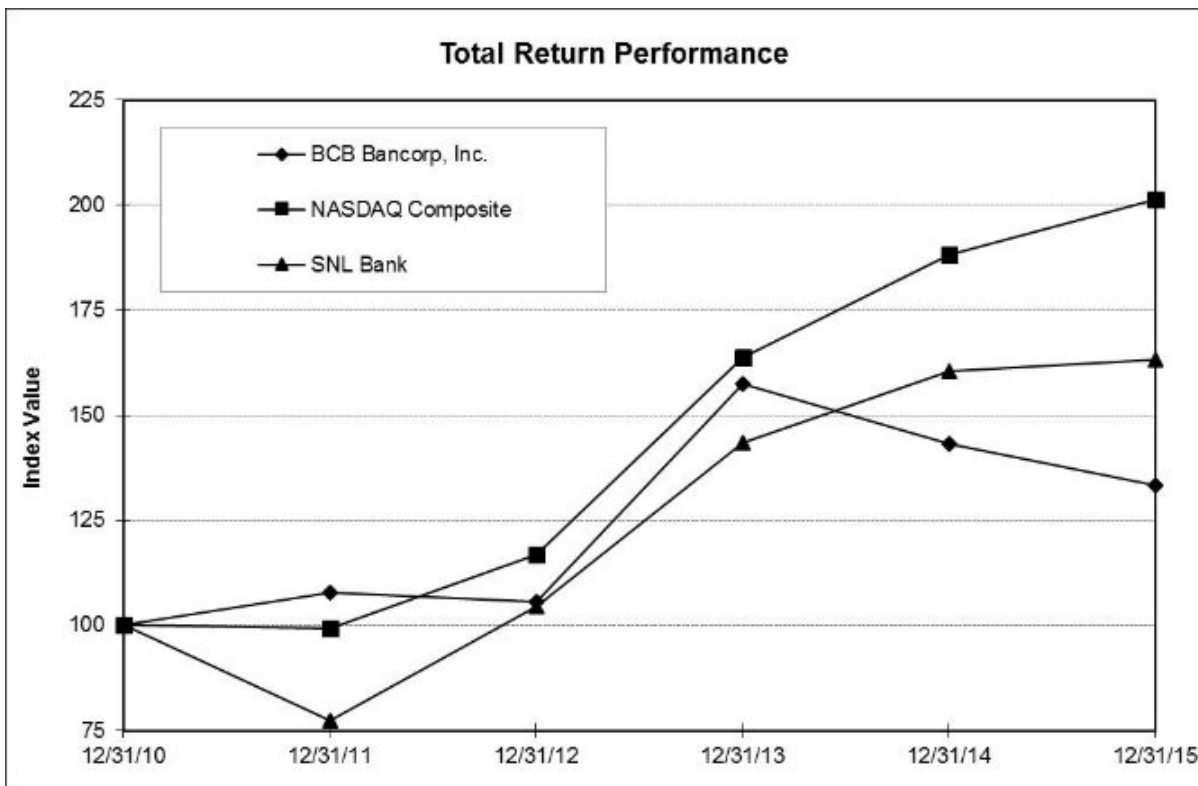
Set forth below is information as of December 31, 2015 regarding equity compensation plans that have been approved by shareholders. The Company has no equity based benefit plans that were not approved by shareholders.

| <b>Plan</b>  | <b>Number of securities to be issued upon exercise of outstanding options and rights</b> | <b>Weighted average Exercise price <sup>(1)</sup></b> | <b>Number of securities remaining available for issuance under plan</b> |
|--|--|---|---|
| Equity compensation plans approved by shareholders     | 417,000 <sup>(1)</sup>   | 10.75   | 483,000   |
| Equity compensation plans not approved by shareholders | —  | —   | —   |
| <b>Total</b>   | <b>417,000</b>   | <b>10.75</b>  | <b>483,000</b>  |

- (1) Consists of options to purchase (i) 2,000 shares of common stock under the 2003 Stock Option Plan and (ii) 415,000 shares under the 2011 Stock Option Plan.  
(2) The weighted average exercise price reflects the exercise prices ranging from \$8.93 - \$13.32 per share for options under the 2011 Stock Option Plan and \$15.11 for the 2,000 shares under the 2003 stock options plan.

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on the common stock for the period beginning with the closing sales price on January 1, 2011 through December 31, 2015, (b) the cumulative total return on all publicly traded commercial bank stocks over such period, and (c) the cumulative total return of Nasdaq Market Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of \$100.

## BCB Bancorp, Inc.



| <i>Index</i>      | <i>Period Ending</i> |          |          |          |          |          |
|-------------------|----------------------|----------|----------|----------|----------|----------|
|                   | 12/31/10             | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 |
| BCB Bancorp, Inc. | 100.00               | 107.74   | 105.69   | 157.52   | 143.16   | 133.31   |
| NASDAQ Composite  | 100.00               | 99.21    | 116.82   | 163.75   | 188.03   | 201.40   |
| SNL Bank          | 100.00               | 77.44    | 104.51   | 143.49   | 160.40   | 163.14   |

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On May 9, 2012, the Company announced a sixth stock repurchase plan to repurchase 5% or 462,800 shares of the Company's common stock. On June 28, 2012, the Company announced a seventh stock repurchase plan to repurchase 5% or 440,000 shares of the Company's common stock. On July 17, 2013, the Company announced a stock repurchase plan to repurchase up to 400,000 shares of the Company's common stock. The Company made no stock purchases for the three months ended December 31, 2015.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following tables set forth selected consolidated historical financial and other data of BCB Bancorp, Inc. at and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011. The information is derived in part from, and should be read together with, the audited Consolidated Financial Statements and Notes thereto of BCB Bancorp, Inc. Per share data has been adjusted for all periods to reflect the common stock dividends paid by the Company.

**Selected financial condition data at December 31,**

|                               | <b>2015</b>  | <b>2014</b>  | <b>2013</b>  | <b>2012</b>  | <b>2011</b>  |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>(In Thousands)</b>         |              |              |              |              |              |
| Total assets                  | \$ 1,618,406 | \$ 1,301,900 | \$ 1,207,959 | \$ 1,171,358 | \$ 1,216,908 |
| Cash and cash equivalents     | 132,635      | 32,123       | 29,844       | 34,147       | 117,087      |
| Securities available for sale | 9,623        | 9,768        | 1,104        | 1,240        | 1,045        |
| Securities, held to maturity  | -            | -            | 114,216      | 164,648      | 206,965      |
| Loans receivable, net         | 1,420,118    | 1,207,850    | 1,020,344    | 922,301      | 840,763      |
| Deposits                      | 1,273,929    | 1,028,556    | 968,670      | 940,786      | 977,623      |
| Borrowings                    | 204,124      | 137,124      | 132,124      | 131,124      | 129,531      |
| Stockholders' equity          | 133,544      | 102,252      | 100,060      | 91,581       | 100,048      |

**Selected operating data for the year ended December 31,**

|   | <b>2015</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>(In thousands, except for per share amounts)</b> |             |             |             |             |             |
| Net interest income                                 | \$ 53,511   | \$ 49,888   | \$ 46,779   | \$ 41,700   | \$ 39,582   |
| Provision for loan losses                           | 2,280       | 2,800       | 2,750       | 4,900       | 4,100       |
| Non-interest income (loss)                          | 7,065       | 3,958       | 3,375       | (7,225)     | 2,448       |
| Non-interest expense                                | 46,452      | 38,409      | 31,437      | 33,889      | 28,506      |
| Income tax expense (benefit)                        | 4,814       | 5,047       | 6,551       | (2,252)     | 3,373       |
| Net income (loss)                                   | \$ 7,030    | \$ 7,590    | \$ 9,416    | \$ (2,062)  | \$ 6,051    |
| Net income (loss) per share:                        |             |             |             |             |             |
| Basic   | \$ 0.69     | \$ 0.81     | \$ 1.06     | \$ (0.23)   | \$ 0.64     |
| Diluted   | \$ 0.69     | \$ 0.81     | \$ 1.06     | \$ (0.23)   | \$ 0.64     |
| Common Dividends declared per share                 | \$ 0.56     | \$ 0.54     | \$ 0.48     | \$ 0.48     | \$ 0.48     |

|   | At or for the Years Ended December 31, |        |        |         |        |
|---|--|--------|--------|---------|--------|
|   | 2015                                   | 2014   | 2013   | 2012    | 2011   |
| <b>Selected Financial Ratios and Other Data:</b>  |  |        |        |         |        |
| Return (loss) on average assets (ratio of net income to average total assets)                       | 0.48 %                                 | 0.61 % | 0.80 % | (0.17)% | 0.54 % |
| Return (loss) on average stockholders' equity (ratio of net income to average stockholders' equity) | 6.52                                   | 7.42   | 10.18  | (2.26)  | 6.14   |
| Non-interest income (loss) to average assets  | 0.48                                   | 0.32   | 0.29   | (0.61)  | 0.22   |
| Non-interest expense to average assets  | 3.15                                   | 3.09   | 2.68   | 2.86    | 2.52   |
| Net interest rate spread during the year  | 3.50                                   | 3.94   | 3.89   | 3.44    | 3.40   |
| Net interest margin (net interest income to average interest earning assets)                        | 3.72                                   | 4.11   | 4.06   | 3.60    | 3.60   |
| Ratio of average interest-earning assets to average interest-bearing liabilities                    | 118.42                                 | 119.75 | 118.32 | 115.23  | 116.03 |
| Cash dividend payout ratio  | 76.50                                  | 68.67  | 45.28  | (208.7) | 75.00  |
| <b>Asset Quality Ratios:</b>  |  |        |        |         |        |
| Non-performing loans to total loans at end of year  | 1.63                                   | 1.60   | 1.98   | 2.45    | 5.61   |
| Allowance for loan losses to non-performing loans at end of year                                    | 76.95                                  | 82.39  | 69.74  | 54.00   | 21.97  |
| Allowance for loan losses to total loans at end of year   | 1.25                                   | 1.32   | 1.38   | 1.32    | 1.23   |
| <b>Capital Ratios:</b>  |  |        |        |         |        |
| Stockholders' equity to total assets at end of year   | 8.25                                   | 7.85   | 8.28   | 7.82    | 8.22   |
| Average stockholders' equity to average total assets  | 7.30                                   | 8.22   | 7.89   | 7.72    | 8.73   |
| Tier 1 capital to average assets <sup>(1)</sup>   | 8.61                                   | 8.33   | 8.70   | 8.38    | 8.66   |
| Tier 1 capital to risk weighted assets <sup>(1)</sup>   | 10.81                                  | 10.48  | 12.41  | 12.79   | 15.34  |

(1) Ratios are for BCB Community Bank only.

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

### **General**

This discussion, and other written material, and statements management may make, may contain certain forward-looking statements regarding the Company's prospective performance and strategies within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of said safe harbor provisions.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in the Company's Annual Report on Form 10-K and in other documents filed by the Company with the Securities and Exchange Commission. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by the use of the words "plan," "believe," "expect," "intend," "anticipate," "estimate," "project," "may," "will," "should," "could," "predicts," "forecasts," "potential," or "continue" or similar terms or the negative of these terms. The Company's ability to predict results or the actual effects of its plans or strategies is inherently uncertain. Accordingly, actual results may differ materially from anticipated results.

Factors that could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in market interest rates, general economic conditions, legislation, and regulation; changes in monetary and fiscal policies of the United States Government, including policies of the United States Treasury and Federal Reserve Board; changes in the quality or composition of the loan or investment portfolios; changes in deposit flows, competition, and demand for financial services, loans, deposits and investment products in the Company's local markets; changes in accounting principles and guidelines; war or terrorist activities; and other economic, competitive, governmental, regulatory, geopolitical and technological factors affecting the Company's operations, pricing and services.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this discussion. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law or regulation, the Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

## **Critical Accounting Policies**

Critical accounting policies are those accounting policies that can have a significant impact on the Company's financial position and results of operations that require the use of complex and subjective estimates based upon past experiences and management's judgment. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Below are those policies applied in preparing the Company's consolidated financial statements that management believes are the most dependent on the application of estimates and assumptions. For additional accounting policies, see Note 2 of "Notes to Consolidated Financial Statements."

### *Allowance for Loan Losses*

Loans receivable are presented net of an allowance for loan losses and net deferred loan fees. In determining the appropriate level of the allowance, management considers a combination of factors, such as economic and industry trends, real estate market conditions, size and type of loans in portfolio, nature and value of collateral held, borrowers' financial strength and credit ratings, and prepayment and default history. The calculation of the appropriate allowance for loan losses requires a substantial amount of judgment regarding the impact of the aforementioned factors, as well as other factors, on the ultimate realization of loans receivable. In addition, our determination of the amount of the allowance for loan losses is subject to review by the New Jersey Department of Banking and Insurance and the FDIC, as part of their examination process. After a review of the information available, our regulators might require the establishment of an additional allowance. Any increase in the loan loss allowance required by regulators would have a negative impact on our earnings.

### *Other-than-Temporary Impairment of Securities*

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" in accordance with Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt and Equity Securities*.

Accordingly, temporary impairments are accounted for based upon the classification of the related securities as either available for sale or held to maturity. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through Other Comprehensive Income ("OCI") with offsetting entries adjusting the carrying value of the securities and the balance of deferred taxes. Conversely, the carrying values of held to maturity securities are not adjusted for temporary impairments. Information concerning the amount and duration of temporary impairments on both available for sale and held to maturity securities is generally disclosed in the notes to the consolidated financial statements.

Other-than-temporary impairments are accounted for based upon several considerations. First, other-than-temporary impairments on debt securities that the Company has decided to sell as of the close of a fiscal period, 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 neither of these conditions regarding the likelihood of the sale of debt securities are applicable, then the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. A credit-related impairment 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. Credit-related other-than-temporary impairments are recognized in earnings and noncredit-related other-than-temporary impairments are recognized in OCI. Equity securities on which there is an unrealized loss that is deemed other-than-temporary are written down to fair value with the write-down recognized in earnings.

### *Deferred Income Taxes*

The Company records income taxes using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or the consolidated and separate entity tax returns; (ii) are attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. In making this assessment, management considers the profitability of current core operations, future market growth, forecasted earnings, future taxable income, and ongoing, feasible and permissible tax planning strategies. Deferred tax assets have been reduced by a valuation allowance for all portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

### *Fair Value Measurements*

Management uses its best judgment in estimating fair value measurements of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Management utilized various inputs to determine fair value including but not limited to the use of, valuation techniques based on various assumptions, including, but not limited to cash flows, discount rates, rate of return, adjustments for nonperformance and liquidity, quoted market prices, and appraisals. 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 consolidated 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.

**Financial Condition at December 31, 2015 and 2014**

Total assets increased by \$ 317.0 million, or 24.3%, to \$ 1.618 billion at December 31, 2015 from \$1.302 billion at December 31, 2014. The increase in total assets resulted primarily from an increase in net loans receivable of \$ 212.3 million, partially offset by a decrease in Other Real Estate Owned of \$ 1.9 million. Management is focusing on maintaining adequate liquidity in anticipation of funding loans in the loan pipeline as well as seeking opportunities to purchase loans in the secondary market that provide competitive returns but meet our internal underwriting guidelines. It is our intention to grow our assets at a measured pace consistent with our capital levels and as business opportunities permit. Organic growth should occur consistent with our strategic plan under which we anticipate opening additional branch offices in 2016.

Total cash and cash equivalents increased by \$ 100.5 million, or 312.9%, to \$ 132.6 million at December 31, 2015 from \$ 32.1 million at December 31, 2014.

Loans receivable, net increased by \$212.3 million, or 17.6%, to \$1.420 billion at December 31, 2015 from \$1.208 billion at December 31, 2014. The increase resulted primarily from a \$224.2 million increase in real estate mortgages comprising commercial and multi-family, construction and participation loans with other financial institutions along with an increase of a \$13.8 million in commercial business loans and commercial lines of credit, partially offset by a decrease of \$21.1 million in residential real estate loans, a \$2.8 million decrease in home equity and home equity lines of credit and a \$1.9 million increase in the allowance for loan losses. As of December 31, 2015, the allowance for loan losses was \$18.0 million, or 77.0%, of non-performing loans and 1.25% of gross loans, as compared to \$16.2 million or 2.4% of non-performing loans and 1.32% of gross loans at December 31, 2014. As a result of the loans acquired in the business combination transactions being recorded at their fair value, the balances in the allowance for loan losses that were on the balance sheets of the former Pamrapo Bancorp, Inc., and Allegiance Community Bank are precluded from being reported in the allowance balance previously discussed, consistent with generally accepted accounting principles.

Deposit liabilities increased by \$245.0 million, or 23.9%, to \$1.274 billion at December 31, 2015 from \$1.029 billion at December 31, 2014. The increase resulted primarily from a \$198.4 million increase in certificates of deposit, an increase of \$5.2 million in money market interest bearing deposits, an increase of \$49.1 million in interest-bearing demand accounts and a \$26.6 million increase in non-interest bearing deposits, partly offset by a decrease of \$32.9 million in savings and club deposits. The increase in certificates of deposit primarily was the result of a promotional campaign in 2015. Recognizing this shift in the mix of our deposits, the attraction and retention of non-interest bearing commercial deposits, and longer dated maturity deposits remains a focus of our retail deposit gathering philosophy. During 2015, the Federal Open Market Committee (FOMC) has continued its accommodative monetary policy. This extended environment of historically low short term market rates has resulted in continuing parallel low retail deposit account yields, directly decreasing interest expense.

Short-term borrowings decreased by \$ 26.0 million, or 100.0%, to \$ 0 at December 31, 2015 from \$ 26.0 million at December 31, 2014. Long-term borrowings increased by \$ 67.0 million, or 50.4%, to \$ 200.0 million at December 31, 2015 from \$ 133.0 million at December 31, 2014. The purpose of the borrowings reflected the use of long term and short term FHLB advances to augment deposits as the Company's funding source for originating loans and investing in GSE investment securities.

Stockholders' equity increased by \$31.3 million, or 30.6%, to \$133.5 million at December 31, 2015 from \$102.2 million at December 31, 2014. The increase in stockholders' equity was primarily attributable to an increase of \$25.6 million of net proceeds from the issuance of 2,760,000 shares of the Company's common stock, an increase of \$3.8 million in preferred stock outstanding partly offset by cash dividends paid during 2015 totaling \$4.5 million on outstanding common shares of stock and \$917,000 on outstanding shares of preferred stock. The Company accrued a dividend payable for the fourth quarter on the preferred shares for \$206,000 which will be paid in the first quarter of 2016. As of December 31, 2015, the Bank's Tier 1, Tier 1 Risk-Based and Total Risk Based Capital Ratios were 8.61%, 10.81% and 12.06% respectively.

**Analysis of Net Interest Income**

Net interest income is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them, respectively.

The following tables set forth balance sheets, average yields and costs, and certain other information for the years indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred fees, discounts and premiums, which are included in interest income.

|  | At December 31, 2015 |                   | Year ended December 31, 2015 |                      |                    | Year ended December 31, 2014 |                      |                    |
|--|----------------------|-------------------|------------------------------|----------------------|--------------------|------------------------------|----------------------|--------------------|
|  | Actual Balance       | Actual Yield/Cost | Average Balance              | Interest earned/paid | Average Yield/Cost | Average Balance              | Interest earned/paid | Average Yield/Cost |
| <b>(Dollars in Thousands)</b>                                    |                      |                   |                              |                      |                    |                              |                      |                    |
| Interest-earning assets:   |                      |                   |                              |                      |                    |                              |                      |                    |
| Loans receivable (1)   | \$1,438,160          | 5.06 %            | \$1,360,304                  | \$ 66,628            | 4.90 %             | \$1,116,673                  | \$ 57,858            | 5.18 %             |
| Investment securities(2)   | 20,334               | 1.51              | 19,829                       | 651                  | 3.28               | 73,419                       | 2,282                | 3.11               |
| Interest-earning deposits  | <u>122,065</u>       | 0.19              | <u>58,392</u>                | <u>101</u>           | 0.17               | <u>24,715</u>                | <u>55</u>            | 0.22               |
| Total interest-earning assets                                    | <u>1,580,559</u>     | 4.61 %            | <u>1,438,525</u>             | <u>67,380</u>        | 4.68 %             | <u>1,214,807</u>             | <u>60,195</u>        | 4.96 %             |
| Interest-earning liabilities:                                    |                      |                   |                              |                      |                    |                              |                      |                    |
| Total interest-bearing   |                      |                   |                              |                      |                    |                              |                      |                    |
| demand deposits  | \$ 226,137           | 0.29 %            | \$ 189,016                   | \$ 716               | 0.38 %             | \$ 152,205                   | \$ 318               | 0.21 %             |
| Money market deposits  | 54,915               | 0.30              | 51,872                       | 207                  | 0.40               | 62,691                       | 189                  | 0.30               |
| Savings deposits   | 250,936              | 0.14              | 260,284                      | 403                  | 0.16               | 269,151                      | 406                  | 0.15               |
| Certificates of deposit  | 611,021              | 1.32              | 515,706                      | 6,084                | 1.18               | 400,455                      | 4,287                | 1.07               |
| Borrowings   | <u>200,000</u>       | 3.27              | <u>197,917</u>               | <u>6,459</u>         | 3.26               | <u>129,984</u>               | <u>5,107</u>         | 3.93               |
| Total interest-bearing liabilities                               | <u>1,343,009</u>     | 1.19 %            | <u>1,214,795</u>             | <u>13,869</u>        | 1.14 %             | <u>1,014,486</u>             | <u>10,307</u>        | 1.02 %             |
| Net interest income  |                      |                   |                              | <u>\$ 53,511</u>     |                    |                              | <u>\$ 49,888</u>     |                    |
| Interest rate spread(3)  |                      | <u>3.42 %</u>     |                              |                      | <u>3.54 %</u>      |                              |                      | <u>3.94 %</u>      |
| Net interest margin(4)   |                      | <u>3.61 %</u>     |                              |                      | <u>3.72 %</u>      |                              |                      | <u>4.11 %</u>      |
| Ratio of interest-earning assets to interest-bearing liabilities | <u>117.69% %</u>     |                   | <u>118.42%</u>               |                      |                    | <u>119.75%</u>               |                      |                    |

(1) Excludes allowance for loan losses.

(2) Includes Federal Home Loan Bank of New York stock.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

**Analysis of Net Interest Income (Continued)**

|   | <b>Year ended December 31, 2013</b> |                             |                           |
|---|-------------------------------------|-----------------------------|---------------------------|
|   | <b>(Dollars in Thousands)</b>       |                             |                           |
|   | <b>Average Balance</b>              | <b>Interest earned/paid</b> | <b>Average Yield/Cost</b> |
| <b>Interest-earning assets:</b>   |                                     |                             |                           |
| Loans receivable (1)  | \$ 980,844                          | \$ 53,521                   | 5.46 %                    |
| Investment securities(2)  | 140,403                             | 3,786                       | 2.70                      |
| Interest-earning deposits   | 31,989                              | 52                          | 0.16                      |
| <b>Total interest-earning assets</b>                                    | <b>1,153,236</b>                    | <b>57,359</b>               | <b>4.97 %</b>             |
| <b>Interest-earning liabilities:</b>                                    |                                     |                             |                           |
| Interest-bearing demand deposits  | \$ 131,096                          | \$ 247                      | 0.19 %                    |
| Money market deposits   | 64,955                              | 197                         | 0.30                      |
| Savings deposits  | 264,346                             | 363                         | 0.14                      |
| Certificates of deposit   | 396,646                             | 4,795                       | 1.21                      |
| Borrowings  | 117,658                             | 4,978                       | 4.23                      |
| <b>Total interest-bearing liabilities</b>                               | <b>974,701</b>                      | <b>10,580</b>               | <b>1.09 %</b>             |
| <b>Net interest income</b>  |                                     | <b>\$ 46,779</b>            |                           |
| <b>Interest rate spread(3)</b>  |                                     |                             | <b>3.89 %</b>             |
| <b>Net interest margin(4)</b>   |                                     |                             | <b>4.06 %</b>             |
| <b>Ratio of interest-earning assets to interest-bearing liabilities</b> | <b>118.32</b>                       | <b>%</b>                    |                           |

(1) Excludes allowance for loan losses.

(2) Includes Federal Home Loan Bank of New York stock.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.



**Rate/Volume Analysis**

The table below sets forth certain information regarding changes in our interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in average volume (changes in average volume multiplied by old rate); (ii) changes in rate (change in rate multiplied by old average volume); (iii) changes due to combined changes in rate and volume; and (iv) the net change.

|                                    | Years Ended December 31,   |            |             |                           |                            |            |             |                           |
|------------------------------------|----------------------------|------------|-------------|---------------------------|----------------------------|------------|-------------|---------------------------|
|                                    | 2015 vs. 2014              |            |             |                           | 2014 vs. 2013              |            |             |                           |
|                                    | Increase (Decrease) Due to |            |             |                           | Increase (Decrease) Due to |            |             |                           |
|                                    | Volume                     | Rate       | Rate/Volume | Total Increase (Decrease) | Volume                     | Rate       | Rate/Volume | Total Increase (Decrease) |
| (In thousands)                     |                            |            |             |                           |                            |            |             |                           |
| <b>Interest income:</b>            |                            |            |             |                           |                            |            |             |                           |
| Loans receivable                   | \$ 12,623                  | \$ (3,163) | \$ (690)    | \$ 8,770                  | \$ 7,412                   | \$ (2,701) | \$ (374)    | \$ 4,337                  |
| Investment securities              | (1,666)                    | 127        | (92)        | (1,631)                   | (1,806)                    | 578        | (276)       | (1,504)                   |
| Interest-earning deposits          |                            |            |             |                           |                            |            |             |                           |
| with other banks                   | 76                         | (13)       | (17)        | 46                        | (13)                       | 20         | (4)         | 3                         |
| Total interest-earning assets      | 11,033                     | (3,049)    | (799)       | 7,185                     | 5,593                      | (2,103)    | (654)       | 2,836                     |
| <b>Interest expense:</b>           |                            |            |             |                           |                            |            |             |                           |
| Interest-bearing demand accounts   | 77                         | 258        | 62          | 397                       | 40                         | 27         | 4           | 71                        |
| Money market                       | (33)                       | 63         | (11)        | 19                        | (7)                        | (1)        | -           | (8)                       |
| Savings and club                   | (14)                       | 11         | 0           | (3)                       | 6                          | 37         | 1           | 44                        |
| Certificates of Deposits           | 1,235                      | 436        | 126         | 1,797                     | 46                         | (548)      | (5)         | (507)                     |
| Borrowed funds                     | 2,670                      | (866)      | (452)       | 1,352                     | 520                        | (356)      | (37)        | 127                       |
| Total interest-bearing liabilities | 3,935                      | (98)       | (275)       | 3,562                     | 605                        | (841)      | (37)        | (273)                     |
| Change in net interest income      | \$ 7,098                   | \$ (2,951) | \$ (524)    | \$ 3,623                  | \$ 4,988                   | \$ (1,262) | \$ (617)    | \$ 3,109                  |

## Results of Operations for the Years Ended December 31, 2015 and 2014

Net income was \$7.0 million for the year ended December 31, 2015, compared with \$7.6 million for the year ended December 31, 2014. Net income decreased due to higher non-interest expense, partially offset by increases in net interest income and non-interest income for the year ended December 31, 2015, as compared with the year ended December 31, 2014.

Net interest income increased by \$3.6 million, or 7.3%, to \$53.5 million for the year ended December 31, 2015 from \$49.9 million for the year ended December 31, 2014. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of \$223.7 million, or 18.4%, to \$1.439 billion for the year ended December 31, 2015 from \$1.215 billion for year ended December 31, 2014, partly offset by a decrease in the average yield on interest-earning assets of 28 basis points to 4.68% for the year ended December 31, 2015 from 4.96% for the year ended December 31, 2014. The average balance of interest-bearing liabilities increased by \$200.3 million, or 19.8%, to \$1.215 billion for the year ended December 31, 2015 from \$1.014 billion for the year ended December 31, 2014, and the average cost of interest bearing liabilities increased by 12 basis points to 1.14% for year ended December 31, 2015 from 1.02% for the year ended December 31, 2014. Net interest margin was 3.72 % for the year ended December 31, 2015, and 4.11 % for the year ended December 31, 2014.

Interest income on loans receivable increased by \$8.7 million, or 15.2%, to \$66.6 million for the year ended December 31, 2015 from \$57.9 million for the year ended December 31, 2014. The increase was primarily attributable to an increase in the average balance of loans receivable of \$243.6 million, or 21.8%, to \$1.360 billion for the year ended December 31, 2015 from \$1.117 billion for the year ended December 31, 2014, partly offset by a decrease in the average yield on loans receivable to 4.90% for the year ended December 31, 2015 from 5.18% for the year ended December 31, 2014. The increase in the average balance of loans receivable was the result of our comprehensive loan growth strategy. The decrease in average yield reflects the competitive price environment prevalent in the Company's primary market area on loan facilities as well as the repricing downward of certain variable rate loans.

Interest income on securities decreased by \$1.6 million, or 71.5%, to \$651,000 for the year ended December 31, 2015 from \$2.3 million for the year ended December 31, 2014. This decrease was primarily due to a decrease in the average balance of securities of \$53.6 million or 73.0% to \$19.8 million for the year ended December 31, 2015 from \$73.4 million for the year ended December 31, 2014, partly offset by an increase in the average yield of securities to 3.28% for the year ended December 31, 2015 from 3.11% for the year ended December 31, 2014. Investment securities totaling approximately \$100.5 million were sold in the third quarter of 2014.

Interest income on other interest-earning assets increased by \$46,000, or 83.6%, to \$101,000 for the year ended December 31, 2015 from \$55,000 for the year ended December 31, 2014. This increase was primarily due to an increase of 136.3%, in the average balance of other interest-earning assets to \$58.4 million for the year ended December 31, 2015 from \$24.7 million for the year ended December 31, 2014, partly offset by a decrease in the average yield on other interest-earning assets to 0.17% for the year ended December 31, 2015 from 0.22% for the year ended December 31, 2014.

Total interest expense increased by \$3.6 million, or 34.6%, to \$13.9 million for the year ended December 31, 2015 from \$10.3 million for the year ended December 31, 2014. The increase resulted primarily from an increase in the average balance of interest-bearing liabilities of \$200.3 million, or 19.8%, to \$1.215 billion for the year ended December 31, 2015 from \$1.015 billion for the year ended December 31, 2014 and an increase in the cost of interest-bearing liabilities of 12 basis points to 1.14% for the year ended December 31, 2015 from 1.02% for the year ended December 31, 2014. The increase in the average rate on interest-bearing liabilities was due to competitive forces in attracting new deposits and a change in the mix of funding sources and terms, including higher cost listing service certificates of deposit and brokered certificates of deposit, to support aggressive loan growth.

The provision for loan losses totaled \$2.3 million and \$2.8 million for the years ended December 31, 2015 and 2014, respectively. The provision for loan losses is established based upon management's review of the Company's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the activity and fluctuating balance of loans receivable, and (5) the existing level of reserves for loan losses that are probable and estimable. During the year ended December 31, 2015, the Company experienced \$389,000 in net charge-offs (consisting of \$462,000 in charge-offs and \$73,000 in recoveries). During the year ended December 31, 2014, the Company experienced \$1.0 million in net charge-offs (consisting of \$1.4 million in charge-offs and \$400,000 in recoveries). The Company had non-performing loans totaling \$23.4 million, or 1.63%, of gross loans at December 31, 2015 and \$19.6 million, or 1.60%, of gross loans at December 31, 2014. The allowance for loan losses was \$18.0 million, or 1.25%, of gross loans at December 31, 2015 as compared to \$16.2 million, or 1.32%, of gross loans at December 31, 2014. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at both December 31, 2015 and December 31, 2014.

Total non-interest income increased by \$3.1 million, or 78.5% to \$7.1 million for the year ended December 31, 2015 compared with \$4.0 million for the year ended December 31, 2014. Gains on sales of loans increased \$2.7 million to \$4.9 million for the year ended December 31, 2015 from \$2.2 million for the year ended December 31, 2014. Transactions for the year ended December 31, 2014, for which there were no comparable events for the for the year ended December 31, 2015, included a \$1.2 million gain on the sale of investment securities available for sale, \$2.3 million increase in gains on the sale of investment securities held to maturity and a \$4.0 million loss on the bulk sale of impaired loans.

Total non-interest expense increased by \$8.0 million, or 20.9%, to \$46.4 million for the year ended December 31, 2015 from \$38.4 million for the year ended December 31, 2014. Salaries and employee benefits expense increased by \$3.0 million, or 14.5%, to \$23.1 million for the year ended December 31, 2015 from \$20.1 million for the year ended December 31, 2014. This increase in both salaries and employee benefits was mainly attributable to an increase of 26 average full-time equivalent employees, or 8.6%, to 330 for the year ended December 31, 2015 from 304 for the year ended December 31, 2014. The increase in employees relates to the addition of business development and loan administration employees, and the openings and anticipated openings of new branch offices in 2014 and 2015, as well as providing health benefits to a greater number of existing employees. Occupancy expense increased by \$1.3 million, or 31.4%, to \$5.4 million for the year ended December 31, 2015 from \$4.1 million for the year ended December 31, 2014. Equipment expense increased by \$801,000, or 14.2%, to \$6.4 million for the year ended December 31, 2015 from \$5.6 million for the year ended December 31, 2014. The increases in occupancy and equipment expenses also related primarily to the openings and anticipated openings of new branch offices in 2014 and 2015. Professional fees decreased by \$830,000, or 39.1%, to \$1.3 million for the year ended December 31, 2015 from \$2.1 million for the year ended December 31, 2014. Advertising expense increased by \$1.2 million, or 114.6%, to \$2.2 million for the year ended December 31, 2015 from \$1.0 million for the year ended December 31, 2014. The increase in advertising was primarily due to our marketing efforts related to the previously mentioned expansion of our geographic footprint. Other non-interest expense increased by \$2.3 million, or 67.6% to \$5.7 million for the year ended December 31, 2015 from \$3.4 million for the year ended December 31, 2014. Other non-interest expense is comprised of loan expense, stationary, forms and printing, check printing, correspondent bank fees, telephone and communication, and other fees and expenses.

Income tax provision decreased by \$233,000, or 4.6%, to \$4.8 million for the year ended December 31, 2015 from \$5.0 million for the year ended December 31, 2014. The decrease in income tax provision was a result of lower taxable income during the year ended December 31, 2015 as compared to the year ended December 31, 2014. The consolidated effective tax rate for the year ended December 31, 2015 was 40.7% compared to 39.9% for the year ended December 31, 2014.

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

Net income was \$7.6 million for the year ended December 31, 2014, compared with \$9.4 million for the year ended December 31, 2013. Net income decreased due to higher non-interest expense, partially offset by increases in net interest income and non-interest income for the year ended December 31, 2014, as compared with the year ended December 31, 2013.

Net interest income increased by \$3.1 million, or 6.6%, to \$49.9 million for the year ended December 31, 2014 from \$46.8 million for the year ended December 31, 2013. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of \$61.6 million, or 5.3%, to \$1.215 billion for the year ended December 31, 2014 from \$1.153 billion for year ended December 31, 2013, partly offset by a decrease in the average yield on interest-earning assets of one basis point to 4.96% for the year ended December 31, 2014 from 4.97% for the year ended December 31, 2013. The average balance of interest-bearing liabilities increased by \$39.8 million, or 4.0%, to \$1.014 billion for the year ended December 31, 2014 from \$974.7 million for the year ended December 31, 2013, while the average cost of interest bearing liabilities decreased by seven basis points to 1.02% for year ended December 31, 2014 from 1.09% for the year ended December 31, 2013. Net interest margin was 4.11% for the year ended December 31, 2014, and 4.06% for the year ended December 31, 2013.

Interest income on loans receivable increased by \$4.3 million, or 8.1%, to \$57.9 million for the year ended December 31, 2014 from \$53.6 million for the year ended December 31, 2013. The increase was primarily attributable to an increase in the average balance of loans receivable of \$135.8 million, or 13.9%, to \$1.117 billion for the year ended December 31, 2014 from \$980.8 million for the year ended December 31, 2013, partially offset by a decrease in the average yield on loans receivable to 5.18% for the year ended December 31, 2014 from 5.46% for the year ended December 31, 2013. The increase in the average balance of loans receivable was the result of our comprehensive loan growth strategy. The decrease in average yield reflects the competitive price environment prevalent in the Company's primary market area on loan facilities as well as the repricing downward of certain variable rate loans.

Interest income on securities decreased by \$1.5 million, or 39.7%, to \$2.3 million for the year ended December 31, 2014 from \$3.8 million for the year ended December 31, 2013. This decrease was primarily due to a decrease in the average balance of securities of \$67.0 million or 47.7% to \$73.4 million for the year ended December 31, 2014 from \$140.4 million for the year ended December 31, 2013, partly offset by an increase in the average yield of securities to 3.11% for the year ended December 31, 2014 from 2.70% for the year ended December 31, 2013. Investment securities classified as held-to-maturity, which totaled \$114.2 million at December 31, 2013, were sold in the third quarter of 2014, except for approximately \$9.8 million of such securities which were re-designated to available for sale securities.

Interest income on other interest-earning assets increased by \$3,000, or 5.8%, to \$55,000 for the year ended December 31, 2014 from \$52,000 for the year ended December 31, 2013. This increase was primarily due to an increase of the average yield on other interest-earning assets to 0.22% for the year ended December 31, 2014 from 0.16% for the year ended December 31, 2013, partly offset by a decrease of \$7.3 million, or 22.7%, in the average balance of other interest-earning assets to \$24.7 million for the year ended December 31, 2014 from \$32.0 million for the year ended December 31, 2013. The somewhat static nature of the average yield on other interest-earning assets reflects the current philosophy by the FOMC of keeping short term interest rates at historically low levels for the last several years.

Total interest expense decreased by \$273,000, or 2.6%, to \$10.3 million for the year ended December 31, 2014 from \$10.6 million for the year ended December 31, 2013. The decrease resulted primarily from a decrease in the cost of interest-bearing liabilities of seven basis points to 1.02% for the year ended December 31, 2014 from 1.09% for the year ended December 31, 2013, partly offset by an increase in the average balance of interest bearing liabilities of \$39.8 million, or 4.1%, to \$1.015 billion for the year ended December 31, 2014 from \$974.7 million for the year ended December 31, 2013. The decrease in the average cost of interest-bearing liabilities reflects the Company's reaction to the lower short term interest rate environment and our ability to reduce our pricing on a select number of retail deposit products.

The provision for loan losses totaled \$2.8 million and \$2.7 million for the years ended December 31, 2014 and 2013, respectively. The provision for loan losses is established based upon management's review of the Company's loans and consideration of a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the activity and fluctuating balance of loans receivable, and (5) the existing level of reserves for loan losses that are probable and estimable. During the year ended December 31, 2014, the Company experienced \$1.0 million in net charge-offs (consisting of \$1.4 million in charge-offs and \$400,000 in recoveries). During the year ended December 31, 2013, the Company experienced \$771,000 in net charge-offs (consisting of \$971,000 in charge-offs and \$200,000 in recoveries). The Company had non-performing loans totaling \$19.6 million, or 1.60%, of gross loans at December 31, 2014 and \$20.6 million, or 1.98%, of gross loans at December 31, 2013. The decrease in non-performing loans resulted primarily from the sales of approximately \$10.4 million in non-performing loans during the third quarter of 2014. The sale resulted in a pre-tax loss of approximately \$4.0 million. The primary reason for these transactions was the elimination of carrying and legacy costs associated with these non-interest earning assets. The allowance for loan losses was \$16.2 million, or 1.32%, of gross loans at December 31, 2014 as compared to \$14.3 million, or 1.38%, of gross loans at December 31, 2013. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at both December 31, 2014 and December 31, 2013.

Total non-interest income increased by \$583,000, or 17.3% to \$4.0 million for the year ended December 31, 2014 compared with \$3.4 million for the year ended December 31, 2013, which included a \$1.2 million gain on the sale of investment securities available for sale in the year ended December 31, 2014, with no comparable sale in the year ended December 31, 2013, and a \$1.9 million increase in gains on the sale of investment securities held to maturity to \$2.3 million for the years ended December 31, 2014 from \$378,000 for the years ended December 31, 2013. In addition, non-interest income included an increase in gains on sales of loans originated for sale of \$650,000 to \$2.2 million for the years ended December 31, 2014 from \$1.5 million for the years ended December 31, 2013. These increases in non-interest income were largely offset by a \$4.0 million loss on the bulk sale of impaired loans in the year ended December 31, 2014, with no comparable sale in the year ended December 31, 2013.

Total non-interest expense increased by \$7.0 million, or 22.2%, to \$38.4 million for the year ended December 31, 2014 from \$31.4 million for the year ended December 31, 2013. Salaries and employee benefits expense increased by \$4.4 million, or 28.4%, to \$20.1 million for the year ended December 31, 2014 from \$15.7 million for the year ended December 31, 2013. This increase in both salaries and employee benefits was mainly attributable to an increase of 78 full-time equivalent employees, or 31.3%, to 327 at December 31, 2014 from 249 at December 31, 2013, which relates to the addition of business development and loan administration employees, and the openings and anticipated openings of new branch offices in 2014 and 2015, as well as providing health benefits to a greater number of existing employees. Occupancy expense increased by \$627,000, or 17.8%, to \$4.1 million for the year ended December 31, 2014 from \$3.5 million for the year ended December 31, 2013. Equipment expense increased by \$420,000, or 8.1%, to \$5.6 million for the year ended December 31, 2014 from \$5.2 million for the year ended December 31, 2013. The increases in occupancy and equipment expenses also related primarily to the openings and anticipated openings of new branch offices in 2014 and 2015. Advertising expense increased by \$450,000, or 77.2%, to \$1.0 million for the year ended December 31, 2014 from \$583,000 for the year ended December 31, 2013. The increase in advertising was primarily due to our marketing efforts related to the previously mentioned expansion of our geographic footprint. Other non-interest expense increased by \$1.0 million, or 42.7% to \$3.4 million for the year ended December 31, 2014 from \$2.4 million for the year ended December 31, 2013. Other non-interest expense is comprised of loan expense, stationary, forms and printing, check printing, correspondent bank fees, telephone and communication, and other fees and expenses.

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Income tax provision decreased by \$1.5 million, or 23.0%, to \$5.0 million for the year ended December 31, 2014 from \$6.5 million for the year ended December 31, 2013. The decrease in income tax provision was a result of lower taxable income during the year ended December 31, 2014 as compared to the year ended December 31, 2013. The consolidated effective tax rate for the year ended December 31, 2014 was 39.9% compared to 41.0% for the year ended December 31, 2013.

**Liquidity and Capital Resources**

The overall objective of our liquidity management practices is to ensure the availability of sufficient funds to meet financial commitments and to take advantage of lending and investment opportunities. The Company manages liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings and other obligations as they mature, and to fund loan and investment portfolio opportunities as they arise.

The Company's primary sources of funds to satisfy its objectives are net growth in deposits (primarily retail), principal and interest payments on loans and investment securities, proceeds from the sale of originated loans and FHLB and other borrowings. The scheduled amortization of loans is a predictable source of funds. Deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including unsecured overnight lines of credit and other collateralized borrowings from the FHLB and other correspondent banks.

At December 31, 2015, the Company had no overnight borrowings outstanding with the FHLB compared to \$26.0 million at December 31, 2014. The Company utilizes overnight borrowings from time to time to fund short-term liquidity needs. The Company had total borrowings of \$204.1 million at December 31, 2015 as compared to \$163.1 million at December 31, 2014.

The Company had the ability at December 31, 2015 to obtain additional funding from the FHLB of \$56.0 million, utilizing unencumbered loan collateral. The Company expects to have sufficient funds available to meet current loan commitments in the normal course of business through typical sources of liquidity. Time deposits scheduled to mature in one year or less totaled \$411.7 million at December 31, 2015. Based upon historical experience data, management estimates that a significant portion of such deposits will remain with the Company.

**Contractual Obligations and Commitments**

The following table sets forth our contractual obligations and commercial commitments at December 31, 2015.

| Contractual obligations | Payments due by period |                   |                   |                     |                   |
|-------------------------|------------------------|-------------------|-------------------|---------------------|-------------------|
|                         | Total                  | Less than 1 Year  | 1-3 Years         | More than 3-5 Years | More than 5 Years |
| (In Thousands)          |                        |                   |                   |                     |                   |
| Benefit Plans           | \$ 5,585               | \$ 609            | \$ 1,819          | \$ 1,120            | \$ 2,037          |
| Borrowed money          | 200,000                | 55,000            | 103,000           | 20,000              | 22,000            |
| Lease obligations       | 12,622                 | 2,155             | 4,571             | 2,306               | 3,590             |
| Certificates of deposit | 611,021                | 411,657           | 183,750           | 15,614              | -                 |
| <b>Total</b>            | <b>\$ 829,228</b>      | <b>\$ 469,421</b> | <b>\$ 293,140</b> | <b>\$ 39,040</b>    | <b>\$ 27,627</b>  |

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Management of Market Risk**

**Qualitative Analysis.** The majority of our assets and liabilities are monetary in nature. Consequently, one of our most significant forms of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee, which consists of senior management and outside directors operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

**Quantitative Analysis.** The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of December 31, 2015. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the NPV table include prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and noninterest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 200 to 300 basis points has been excluded since it would not be meaningful in the interest rate environment as of December 31, 2015. The following sets forth the Company's NPV as of December 31, 2015.

| Change in calculation | Net Portfolio Value | \$ Change from PAR | % Change from PAR | NPV as a % of Assets |           |
|-----------------------|---------------------|--------------------|-------------------|----------------------|-----------|
|                       |                     |                    |                   | NPV Ratio            | Change    |
| +300bp                | \$ 145,335          | \$ (57,079)        | (28.20)           | 9.50 %               | (267) bps |
| +200bp                | 165,124             | (37,289)           | (18.42)           | 10.49                | (168) bps |
| +100bp                | 185,070             | (17,343)           | (8.57)            | 11.44                | (73) bps  |
| PAR                   | 202,413             | -                  | -                 | 12.17                | - bps     |
| -100bp                | 238,091             | 35,678             | 17.63             | 13.85                | 168 bps   |

bp-basis points

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The table above indicates that at December 31, 2015, in the event of a 100 basis point increase in interest rates, we would experience a net 8.57% decrease in NPV, as compared to a 6.43% decrease at December 31, 2014.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in NPV require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the NPV table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income, and will differ from actual results.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements identified in Item 15(a)(1) hereof are included as Exhibit 13 and are incorporated hereunder.

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2015 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Management's Annual Report on Internal Control over Financial Reporting .

Management of BCB Bancorp, Inc., and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control is designed under the supervision of management, including our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of our 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 ("GAAP").

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with the authorization of management and the Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections on any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

As of December 31, 2015, management assessed the effectiveness of the Company's internal control over financial reporting based upon the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which was subsequently updated in 2013. Based upon its assessment, management believes that the Company's internal control over financial reporting as of December 31, 2015 is effective and meets the criteria of the *Internal Control – Integrated Framework (2013)*.

Baker Tilly Virchow Krause, LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, has issued an audit report on the Company's internal control over financial reporting as of December 31, 2015. That report appears below.

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(c) Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
BCB Bancorp, Inc.  
Bayonne, New Jersey

We have audited BCB Bancorp, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). BCB Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows of the Company, and our report dated March 14, 2016 expressed an unqualified opinion.

/s/ Baker Tilly Virchow Krause, LLP

Baker Tilly Virchow Krause, LLP  
Clark, New Jersey  
March 14, 2016

(d) Changes in Internal Controls Over Financial Reporting.

On May 14, 2013, COSO issued an updated version of its *Internal Control—Integrated Framework*, referred to as the 2013 *COSO Framework* and has indicated that after December 15, 2014, the *1992 Framework* will be considered superseded after December 31, 2014. Our Management's assessment of the overall effectiveness of our internal controls over financial reporting for the year ending December 31, 2015 was based on the *2013 COSO Framework*.

There were no significant changes made in our internal controls during the fourth quarter of 2015 or, to our knowledge, in other factors that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

**ITEM 9B. OTHER INFORMATION**

None.



**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Company has adopted a Code of Ethics that applies to the Company's chief executive officer, chief financial officer or, controller or persons performing similar functions. The Code of Ethics is available for free by writing to: President and Chief Executive Officer, BCB Bancorp, Inc., 104-110 Avenue C, Bayonne, New Jersey 07002. The Code of Ethics was filed as an exhibit to the Form 10-K for the year ended December 31, 2004.

The "Proposal I—Election of Directors" section of the Company's definitive Proxy Statement for the Company's 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement") is incorporated herein by reference.

The information concerning directors and executive officers of the Company under the caption "Proposal I-Election of Directors" and information under the captions "Section 16(a) Beneficial Ownership Compliance" and "The Audit Committee" of the 2016 Proxy Statement is incorporated herein by reference.

There have been no changes during the last year in the procedures by which security holders may recommend nominees to the Company's board of directors.

**ITEM 11. EXECUTIVE COMPENSATION**

The "Executive Compensation" section of the Company's 2016 Proxy Statement is incorporated herein by reference.

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

The "Proposal I—Election of Directors" section of the Company's 2016 Proxy Statement is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The "Transactions with Certain Related Persons" section and "Proposal I-Election of Directors—Board Independence" of the Company's 2016 Proxy Statement is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by Item 14 is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting of Stockholders, "Proposal II-Ratification of the Appointment of Independent Auditors—Fees Paid to Baker Tilly Virchow Krause, LLP."

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Statements of Financial Condition as of December 31, 2015 and 2014
- (C) Consolidated Statements of Operations for each of the Years in the Three-Year period ended December 31, 2015
- (D) Consolidated Statements of Comprehensive Income for each of the Years in the Three-Year period ended December 31, 2015
- (E) Consolidated Statements of Changes in Stockholders' Equity for each of the Years in the Three-Year period ended December 31, 2015
- (F) Consolidated Statements of Cash Flows for each of the Years in the Three-Year period ended December 31, 2015
- (G) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

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

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(b) Exhibits

|       |  |
|-------|--|
| 3.1   | Restated Certificate of Incorporation of BCB Bancorp, Inc. (1)   |
| 3.2   | Bylaws of BCB Bancorp, Inc. (2)  |
| 3.3   | Certificate of Amendment to Restated Certificate of Incorporation (18)   |
| 4     | Specimen Stock Certificate (3)   |
| 10.1  | BCB Community Bank 2002 Stock Option Plan (4)  |
| 10.2  | BCB Community Bank 2003 Stock Option Plan (5)  |
| 10.3  | Amendment to 2002 and 2003 Stock Option Plans (6)  |
| 10.4  | 2005 Director Deferred Compensation Plan (7)   |
| 10.5  | Employment Agreement with Donald Mindiak (8)   |
| 10.6  | Employment Agreement with Thomas M. Coughlin (9)   |
| 10.7  | Employment Agreement with Kenneth Walter (10)  |
| 10.8  | Executive Agreement with Donald Mindiak (11)   |
| 10.9  | Executive Agreement with Thomas M. Coughlin (12)   |
| 10.10 | Executive Agreement with Kenneth Walter (13)   |
| 10.11 | Consulting Agreement with Dr. August Pellegrini, Jr. (14)  |
| 10.12 | Consulting Agreement with James E. Collins (15)  |
| 10.13 | BCB Bancorp, Inc. 2011 Stock Option Plan (16)  |
| 10.14 | Employment Agreement with Amer Saleem (19)   |
| 10.15 | Separation Agreement with Amer Saleem (20)   |
| 10.16 | Employment Agreement with Joseph Javitz (22)   |
| 10.17 | Employment Agreement with Thomas Keating (23)  |
| 13    | Consolidated Financial Statements  |
| 14    | Code of Ethics (17)  |
| 21    | Subsidiaries of the Company (21)   |
| 23    | Consent of Independent Registered Public Accounting Firm   |
| 31.1  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 31.2  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 32    | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

- 
- (1) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (Commission File Number 000 - 50275 ) filed with the Securities and Exchange Commission on July 14, 2015 .
  - (2) Incorporated by reference to Exhibit 3 to the Form 8-K filed with the Securities and Exchange Commission on October 12, 2007.
  - (3) Incorporated by reference to Exhibit 4 to the Form 8-K-12g3 filed with the Securities and Exchange Commission on May 1, 2003.
  - (4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 26, 2004.
  - (5) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 26, 2004.
  - (6) Incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2006.
  - (7) Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, as amended, (Commission File Number 333-128214) originally filed with the Securities and Exchange Commission on September 9, 2005.
  - (8) Incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on July 30, 2012 .
  - (9) Incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on July 30, 2012 .
  - (10) Incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on July 8, 2010.
  - (11) Incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on December 15, 2008.

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- (12) Incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on September 11, 2015.
- (13) Incorporated by reference to Exhibit 10.4 to the Form 8-K filed with the Securities and Exchange Commission on July 8, 2010.
- (14) Incorporated by reference to Exhibit 10.7 to the Form 8-K filed with the Securities and Exchange Commission on July 8, 2010.
- (15) Incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on September 1, 2010.
- (16) Incorporated by reference to Appendix A to the proxy statement for the Company's Annual Meeting of Shareholders (File No. 000-50275), filed by the Company with the Securities and Exchange Commission on Schedule 14A on March 28, 2011.
- (17) Incorporated by reference to Exhibit 14 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2004.
- (18) Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on November 5, 2013.
- (19) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on August 14, 2013.
- (20) Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Securities and Exchange Commission on August 7, 2014.
- (21) Incorporated by reference to Exhibit 21 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2014.
- (22) Incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on September 11, 2015.
- (23) Incorporated by reference to Exhibit 10.3 to the form 8-K filed with the Securities and Exchange Commission on September 11, 2015.

**Signatures**

Pursuant to the requirements of Section 13 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.

**BCB BANCORP, INC.**

Date: March 14, 2016

By: /s/ Thomas Coughlin  
Thomas Coughlin  
President and Chief Executive Officer  
(Principal Executive Officer)  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange 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.

| <u>Signatures</u>                                 | <u>Title</u>  | <u>Date</u> |       |
|---|---|-------------|-------|
| <u>/s/ Thomas Coughlin</u><br>Thomas Coughlin     | President, Chief Executive Officer and Director                         | 14, 2016    | March |
| <u>/s/ Thomas P. Keating</u><br>Thomas P. Keating | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | 14, 2016    | March |
| <u>/s/ Mark D. Hogan</u><br>Mark D. Hogan         | Chairman of the Board   | 14, 2016    | March |
| <u>/s/ Robert Ballance</u><br>Robert Ballance     | Director  | 14, 2016    | March |
| <u>/s/ Judith Q. Bielan</u><br>Judith Q. Bielan   | Director  | 14, 2016    | March |
| <u>/s/ Joseph J. Brogan</u><br>Joseph J. Brogan   | Director  | 14, 2016    | March |
| <u>/s/ James E. Collins</u><br>James E. Collins   | Director  | 14, 2016    | March |
| <u>/s/ Joseph Lyga</u><br>Joseph Lyga             | Director  | 14, 2016    | March |

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/s/ Alexander Pasiechnik

|                      |          |          |       |
|----------------------|----------|----------|-------|
| Alexander Pasiechnik | Director | 14, 2016 | March |
|----------------------|----------|----------|-------|

/s/ August Pellegrini, Jr.

|                        |          |          |       |
|------------------------|----------|----------|-------|
| August Pellegrini, Jr. | Director | 14, 2016 | March |
|------------------------|----------|----------|-------|

/s/ James Rizzo

|             |          |          |       |
|-------------|----------|----------|-------|
| James Rizzo | Director | 14, 2016 | March |
|-------------|----------|----------|-------|

/s/ Spencer B. Robbins

|                    |          |          |       |
|--------------------|----------|----------|-------|
| Spencer B. Robbins | Director | 14, 2016 | March |
|--------------------|----------|----------|-------|

/s/ Gary S. Stetz

|               |          |          |       |
|---------------|----------|----------|-------|
| Gary S. Stetz | Director | 14, 2016 | March |
|---------------|----------|----------|-------|

**EXHIBIT 13**  
**CONSOLIDATED FINANCIAL STATEMENTS**

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***BCB Bancorp, Inc. and Subsidiaries***  
Consolidated Financial Report

December 31, 2015 and 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
BCB Bancorp, Inc.  
Bayonne, New Jersey

We have audited the accompanying consolidated statements of financial condition of BCB Bancorp, Inc. and Subsidiaries (collectively the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 consolidated financial position of BCB Bancorp, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2016, expressed an unqualified opinion thereon.

/s/ Baker Tilly Virchow Krause, LLP

Clark, New Jersey  
March 14, 2016

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**BCB Bancorp, Inc. and Subsidiaries****Consolidated Statements of Financial Condition**

|   | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2015                | 2014                |
| (In Thousands, Except Share and Per Share Data)   |                     |                     |
| <b>ASSETS</b>   |                     |                     |
| Cash and amounts due from depository institutions   | \$ 11,808           | \$ 11,202           |
| Interest-earning deposits   | 120,827             | 20,921              |
| Total cash and cash equivalents   | 132,635             | 32,123              |
| Interest-earning time deposits  | 1,238               | 993                 |
| Securities available for sale   | 9,623               | 9,768               |
| Loans held for sale   | 1,983               | 3,325               |
| Loans receivable, net of allowance for loan losses of \$18,042 and \$16,151, respectively   | 1,420,118           | 1,207,850           |
| Federal Home Loan Bank of New York stock, at cost   | 10,711              | 8,830               |
| Premises and equipment, net   | 15,727              | 14,295              |
| Accrued interest receivable   | 5,595               | 4,454               |
| Other real estate owned   | 1,564               | 3,485               |
| Deferred income taxes   | 9,881               | 9,703               |
| Other assets  | 9,331               | 7,074               |
| <b>Total Assets</b>   | <b>\$ 1,618,406</b> | <b>\$ 1,301,900</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| <b>LIABILITIES</b>  |                     |                     |
| Non-interest bearing deposits   | \$ 130,920          | \$ 127,308          |
| Interest bearing deposits   | 1,143,009           | 901,248             |
| Total deposits  | 1,273,929           | 1,028,556           |
| Short-term debt   | -                   | 26,000              |
| Long-term debt  | 200,000             | 133,000             |
| Subordinated debentures   | 4,124               | 4,124               |
| Other liabilities   | 6,809               | 7,968               |
| <b>Total Liabilities</b>  | <b>1,484,862</b>    | <b>1,199,648</b>    |
| <b>STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Preferred stock: \$0.01 par value, 10,000,000 shares authorized, issued and outstanding 1,731 shares of series A, B and C 6% noncumulative perpetual preferred stock (liquidation value \$10,000 per share) at December 31, 2015 and 1,343 shares of Series A and B 6% noncumulative perpetual preferred stock at December 31, 2014 | -                   | -                   |
| Additional paid-in capital preferred stock  | 17,174              | 13,326              |
| Common stock; \$0.064 par value; 20,000,000 shares authorized, issued 13,738,587 and 10,924,054 at December 31, 2015 and 2014, respectively, 11,209,324 and 8,393,791 shares, respectively outstanding  | 879                 | 699                 |
| Additional paid-in capital common stock   | 118,803             | 92,686              |
| Retained earnings   | 27,382              | 25,983              |
| Accumulated other comprehensive (loss)  | (1,598)             | (1,337)             |
| Treasury stock, at cost, 2,529,263 and 2,530,263, respectively  | (29,096)            | (29,105)            |
| <b>Total Stockholders' Equity</b>   | <b>133,544</b>      | <b>102,252</b>      |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 1,618,406</b> | <b>\$ 1,301,900</b> |

See accompanying notes to consolidated financial statements .

**BCB Bancorp, Inc. and Subsidiaries****Consolidated Statements of Operations**

|   | Years Ended December 31,                  |                 |                 |
|---|---|-----------------|-----------------|
|   | 2015                                      | 2014            | 2013            |
|   | (In Thousands, Except for Per Share Data) |                 |                 |
| <b>Interest income:</b>                                     |   |                 |                 |
| Loans, including fees                                       | \$ 66,628                                 | \$ 57,858       | \$ 53,521       |
| Investments, taxable  | 651                                       | 2,254           | 3,737           |
| Investments, non-taxable                                    | -   | 28              | 49              |
| Other interest-earning assets                               | 101                                       | 55              | 52              |
| <b>Total interest income</b>                                | <b>67,380</b>                             | <b>60,195</b>   | <b>57,359</b>   |
| <b>Interest expense:</b>                                    |   |                 |                 |
| Deposits:   |   |                 |                 |
| Demand  | 923                                       | 507             | 444             |
| Savings and club  | 403                                       | 406             | 363             |
| Certificates of deposit                                     | 6,084                                     | 4,287           | 4,795           |
|   | 7,410                                     | 5,200           | 5,602           |
| Borrowings  | 6,459                                     | 5,107           | 4,978           |
| <b>Total interest expense</b>                               | <b>13,869</b>                             | <b>10,307</b>   | <b>10,580</b>   |
| <b>Net interest income</b>                                  | <b>53,511</b>                             | <b>49,888</b>   | <b>46,779</b>   |
| Provision for loan losses                                   | 2,280                                     | 2,800           | 2,750           |
| <b>Net interest income, after provision for loan losses</b> | <b>51,231</b>                             | <b>47,088</b>   | <b>44,029</b>   |
| <b>Non-interest income:</b>                                 |   |                 |                 |
| Fees and service charges                                    | 2,061                                     | 2,188           | 1,822           |
| Gain on sales of loans and other real estate owned          | 4,873                                     | 2,179           | 1,529           |
| Loss on bulk sale of impaired loans held in portfolio       | -   | (4,012)         | (474)           |
| Gain on sale of securities held to maturity                 | -   | 2,288           | 378             |
| Gain on sale of securities available for sale               | -   | 1,223           | -               |
| Other   | 131                                       | 92              | 120             |
| <b>Total non-interest income</b>                            | <b>7,065</b>                              | <b>3,958</b>    | <b>3,375</b>    |
| <b>Non-interest expense:</b>                                |   |                 |                 |
| Salaries and employee benefits                              | 23,068                                    | 20,145          | 15,691          |
| Occupancy expense of premises                               | 5,445                                     | 4,143           | 3,516           |
| Equipment   | 6,428                                     | 5,627           | 5,207           |
| Professional fees   | 1,291                                     | 2,121           | 2,250           |
| Director fees   | 528                                       | 727             | 672             |
| Regulatory assessments                                      | 1,218                                     | 1,142           | 1,096           |
| Advertising   | 2,217                                     | 1,033           | 583             |
| Other real estate owned, net                                | 574                                       | 80              | 46              |
| Other   | 5,683                                     | 3,391           | 2,376           |
| <b>Total non-interest expense</b>                           | <b>46,452</b>                             | <b>38,409</b>   | <b>31,437</b>   |
| <b>Income before income tax provision</b>                   | <b>11,844</b>                             | <b>12,637</b>   | <b>15,967</b>   |
| Income tax provision  | 4,814                                     | 5,047           | 6,551           |
| <b>Net Income</b>   | <b>\$ 7,030</b>                           | <b>\$ 7,590</b> | <b>\$ 9,416</b> |
| Preferred stock dividends                                   | 917                                       | 800             | 559             |
| <b>Net Income available to common stockholders</b>          | <b>\$ 6,113</b>                           | <b>\$ 6,790</b> | <b>\$ 8,857</b> |
| <b>Net Income per common share-basic and diluted</b>        |   |                 |                 |
| Basic   | \$ 0.69                                   | \$ 0.81         | \$ 1.06         |
| Diluted   | \$ 0.69                                   | \$ 0.81         | \$ 1.06         |
| <b>Weighted average number of common shares outstanding</b> |   |                 |                 |
| Basic   | 8,853                                     | 8,366           | 8,397           |
| Diluted   | 8,875                                     | 8,401           | 8,402           |

See accompanying notes to consolidated financial statements.

**BCB Bancorp, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income**

|  | Years Ended December 31, |          |           |
|--|--------------------------|----------|-----------|
|  | 2015                     | 2014     | 2013      |
|  | (In Thousands)           |          |           |
| Net Income   | \$ 7,030                 | \$ 7,590 | \$ 9,416  |
| Other comprehensive (loss) income, net of tax:                               |                          |          |           |
| Unrealized gains (losses) on available-for-sale securities:                  |                          |          |           |
| Unrealized holding (losses) gains arising during the period                  | (103)                    | 286      | 863       |
| Less: reclassification for gains on sale of securities available for sale on |                          |          |           |
| Consolidated Statements of Operations  | -                        | (1,223)  | -         |
| Tax effect (a)   | 42                       | 383      | (353)     |
| Net of tax effect  | (61)                     | (554)    | 510       |
| Benefit Plans:   |                          |          |           |
| Actuarial (loss) gain  | (338)                    | (1,542)  | 1,443     |
| Tax effect   | 138                      | 630      | (589)     |
| Net of tax effect  | (200)                    | (912)    | 854       |
| Other comprehensive (loss) income  | (261)                    | (1,466)  | 1,364     |
| Comprehensive income   | \$ 6,769                 | \$ 6,124 | \$ 10,780 |

(a) Income tax provision on Consolidated Statements of Operations includes \$488,000 in 2014 related to the sale of securities available for sale.

See accompanying notes to consolidated financial statements.

**BCB Bancorp, Inc. and Subsidiaries**
**Consolidated Statements of Changes in Stockholders' Equity**

|  | Preferred Stock | Common Stock | Additional<br>Paid In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity |
|--|-----------------|--------------|----------------------------------|----------------------|-------------------|--|----------------------------------|
| (In Thousands, except per share data)  |                 |              |                                  |                      |                   |  |                                  |
| <b>Balance at January 1, 2013</b>  | \$ -            | \$ 694       | \$ 100,416                       | \$ 18,883            | \$ (27,177)       | \$ (1,235)   | \$ 91,581                        |
| Proceeds from issuance of series B preferred stock, net of issuance costs of \$24  |                 |              | 3,986                            |                      |                   |  | 3,986                            |
| Exercise of stock options ( 51,612 shares)   |                 |              | 157                              |                      |                   |  | 157                              |
| Stock-based compensation expense   |                 |              | 61                               |                      |                   |  | 61                               |
| Treasury stock purchases ( 184,808 shares)   | -               | -            | -                                | -                    | (1,916)           | -  | (1,916)                          |
| Dividends payable on Series A and Series B 6% noncumulative perpetual preferred stock  | -               | -            | -                                | (559)                | -                 | -  | (559)                            |
| Cash dividends on common stock ( \$0.48 per share) declared  | -               | -            | -                                | (4,030)              | -                 | -  | (4,030)                          |
| Net income   | -               | -            | -                                | 9,416                | -                 | -  | 9,416                            |
| Other comprehensive income   | -               | -            | -                                | -                    | -                 | 1,364  | 1,364                            |
| <b>Balance at December 31, 2013</b>  | -               | 694          | 104,620                          | 23,710               | (29,093)          | 129  | 100,060                          |
| Proceeds from issuance of Series B preferred stock   | -               | -            | 770                              | -                    | -                 | -  | 770                              |
| Exercise of stock options ( 127,539 shares)  | -               | 5            | 346                              | -                    | -                 | -  | 351                              |
| Stock-based compensation expense   | -               | -            | 55                               | -                    | -                 | -  | 55                               |
| Treasury stock purchases ( 884 shares)   | -               | -            | -                                | -                    | (12)              | -  | (12)                             |
| Dividends payable on Series A and Series B 6% noncumulative perpetual preferred stock  | -               | -            | -                                | (800)                | -                 | -  | (800)                            |
| Cash dividends on common stock ( \$0.12 per share in February and \$0.14 per share in May , August , and November ) declared | -               | -            | -                                | (4,412)              | -                 | -  | (4,412)                          |
| Dividend reinvestment plan   | -               | -            | 105                              | (105)                | -                 | -  | -                                |
| Stock purchase plan  | -               | -            | 116                              | -                    | -                 | -  | 116                              |
| Net income   | -               | -            | -                                | 7,590                | -                 | -  | 7,590                            |
| Other comprehensive loss   | -               | -            | -                                | -                    | -                 | (1,466)  | (1,466)                          |
| <b>Balance at December 31, 2014</b>  | \$ -            | \$ 699       | \$ 106,012                       | \$ 25,983            | \$ (29,105)       | \$ (1,337)   | \$ 102,252                       |
| Issuance of Common Stock   | -               | 177          | 25,436                           | -                    | -                 | -  | 25,613                           |
| Proceeds from issuance of Series C preferred stock   | -               | -            | 3,848                            | -                    | -                 | -  | 3,848                            |
| Stock-based compensation expense   | -               | -            | 66                               | -                    | -                 | -  | 66                               |
| Treasury stock adjustment  | -               | -            | -                                | -                    | 9                 | -  | 9                                |
| Dividends payable on Series A, B, and C 6% noncumulative perpetual preferred stock   | -               | -            | -                                | (917)                | -                 | -  | (917)                            |
| Cash dividends on common stock (\$0.14 per share in February , May , August , and November ) declared                        | -               | -            | -                                | (4,461)              | -                 | -  | (4,461)                          |
| Dividend reinvestment plan   | -               | -            | 253                              | (253)                | -                 | -  | -                                |
| Stock purchase plan  | -               | 3            | 362                              | -                    | -                 | -  | 365                              |
| Net income   | -               | -            | -                                | 7,030                | -                 | -  | 7,030                            |
| Other comprehensive loss   | -               | -            | -                                | -                    | -                 | (261)  | (261)                            |
| <b>Ending balance at December 31, 2015</b>   | \$ -            | \$ 879       | \$ 135,977                       | \$ 27,382            | \$ (29,096)       | \$ (1,598)   | \$ 133,544                       |

See accompanying notes to consolidated financial statements.

**BCB Bancorp, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

|   | <b>Years Ended December 31,</b> |                  |                  |
|---|---------------------------------|------------------|------------------|
|   | <b>2015</b>                     | <b>2014</b>      | <b>2013</b>      |
| <b>Cash flows from Operating Activities :</b>                                     | <b>(In Thousands)</b>           |                  |                  |
| Net income  | \$ 7,030                        | \$ 7,590         | \$ 9,416         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                  |                  |
| Depreciation of premises and equipment  | 2,149                           | 1,512            | 1,366            |
| Amortization and accretion, net   | (451)                           | (819)            | 627              |
| Provision for loan losses   | 2,280                           | 2,800            | 2,750            |
| Deferred income tax (benefit)   | 2                               | 1,251            | (832)            |
| Loans originated for sale   | (17,764)                        | (25,450)         | (22,233)         |
| Proceeds from sale of loans originated for sale                                   | 23,749                          | 25,507           | 20,116           |
| Gain on sales of loans and other real estate owned                                | (4,873)                         | (2,179)          | (1,635)          |
| Fair value adjustment of other real estate owned                                  | 396                             | -                | (110)            |
| Gain on sales of securities held to maturity                                      | -                               | (2,288)          | (378)            |
| Gain on sales of securities available for sale                                    | -                               | (1,223)          | -                |
| Loss on bulk sale of impaired loans held in portfolio                             | -                               | 4,012            | 474              |
| Stock compensation expense  | 66                              | 55               | 61               |
| (Increase) in accrued interest receivable   | (1,141)                         | (297)            | (94)             |
| (Increase) decrease in other assets   | (2,257)                         | (5,296)          | 5,999            |
| Increase (decrease) in accrued interest payable                                   | 239                             | 47               | (21)             |
| (Decrease) increase in other liabilities  | (1,736)                         | (726)            | 532              |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>7,689</b>                    | <b>4,496</b>     | <b>16,038</b>    |
| <b>Cash flows from Investing Activities:</b>                                      |                                 |                  |                  |
| Proceeds from repayments, calls, and maturities on securities held to maturity    | -                               | 10,272           | 44,957           |
| Proceeds from repayments, calls and maturities on securities available for sale   | 1,160                           | 93               | 1,000            |
| Purchases of securities held to maturity  | -                               | (3,034)          | (5,059)          |
| Purchases of securities available for sale  | (1,174)                         | -                | -                |
| Purchase of interest-earning time deposits  | (245)                           | -                | -                |
| Proceeds from sales of securities held to maturity                                | -                               | 99,198           | 9,493            |
| Proceeds from sales of securities available for sale                              | -                               | 1,320            | -                |
| Proceeds from sales of other real estate owned                                    | 1,525                           | 907              | 3,658            |
| Proceeds from bulk sale of impaired loans held in portfolio                       | -                               | 10,355           | -                |
| Proceeds from sales of participation interests in loans                           | -                               | -                | 24,224           |
| Participation loans held in portfolio   | -                               | -                | (24,224)         |
| Purchases of loans  | -                               | (8,068)          | (22,620)         |
| Net increase in loans receivable  | (213,811)                       | (197,421)        | (76,634)         |
| Improvements to other real estate owned   | -                               | -                | (35)             |
| Additions to premises and equipment   | (3,581)                         | (1,748)          | (1,651)          |
| Purchase of Federal Home Loan Bank of New York stock                              | (1,881)                         | (990)            | (142)            |
| <b>Net Cash Used In Investing Activities</b>                                      | <b>(218,007)</b>                | <b>(89,116)</b>  | <b>(47,033)</b>  |
| <b>Cash flows from Financing Activities:</b>                                      |                                 |                  |                  |
| Net increase in deposits  | 245,373                         | 59,886           | 27,884           |
| Proceeds from long-term debt  | 67,000                          | 23,000           | -                |
| Net change in short term debt   | (26,000)                        | 8,000            | 1,000            |
| Adjustment (Purchase) of treasury stock   | 9                               | (12)             | (1,916)          |
| Cash dividends paid on common stock   | (4,461)                         | (4,412)          | (4,030)          |
| Cash dividends paid on preferred stock  | (917)                           | (800)            | (389)            |
| Net proceeds from issuance of common stock  | 25,978                          | 467              | 157              |
| Net proceeds from issuance of preferred stock                                     | 3,848                           | 770              | 3,986            |
| <b>Net Cash Provided By Financing Activities</b>                                  | <b>310,830</b>                  | <b>86,899</b>    | <b>26,692</b>    |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                       | <b>100,512</b>                  | <b>2,279</b>     | <b>(4,303)</b>   |
| <b>Cash and Cash Equivalents-Beginning</b>  | <b>32,123</b>                   | <b>29,844</b>    | <b>34,147</b>    |
| <b>Cash and Cash Equivalents-Ending</b>   | <b>\$ 132,635</b>               | <b>\$ 32,123</b> | <b>\$ 29,844</b> |

**BCB Bancorp, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

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|   | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2015                     | 2014      | 2013      |
| <b>Supplementary Cash Flow Information</b>                        |                          |           |           |
| Cash paid during the year for:                                    |                          |           |           |
| Income taxes  | \$ 2,384                 | \$ 7,416  | \$ 857    |
| Interest  | \$ 13,630                | \$ 10,261 | \$ 10,601 |
| <b>Non-cash items:</b>  |                          |           |           |
| Transfer of loans to other real estate owned                      | \$ -                     | \$ 2,372  | \$ 3,010  |
| Loans to facilitate sales of other real estate owned              | \$ -                     | \$ -      | \$ 650    |
| Reclassification of loans originated for sale to held to maturity | \$ -                     | \$ 460    | \$ 3,585  |

See accompanying notes to consolidated financial statements.

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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#### **Note 1 - Organization and Stock Offerings**

BCB Bancorp, Inc. (the "Company") is incorporated in the State of New Jersey and is a bank holding company. The common stock of the Company is listed on the Nasdaq Global Market and trades under the symbol "BCBP."

In November 2015, The Company issued and sold in a public offering an aggregate of 2,760,000 shares of the Company's common stock at \$10.00 per share. The shares included in the Company's offering (the "Offering") were registered under the Securities Act pursuant to the Company's registration statement filed with the Securities and Exchange Commission ("SEC") on Form S-3 (File No. 333-199424) and was filed with the SEC on October 16, 2014 and declared effective on November 4, 2014. The Form S-3 registered certain types of the Company's securities, including the Company's common stock, up to a total dollar amount of \$50.0 million. Sandler O'Neill & Partners, L.P. acted as book-running manager and as representatives of the underwriters. Janney Montgomery Scott LLC and Oppenheimer & Company Inc. acted as co-managers for the offering. The offering commenced on October 28, 2015 and terminated on November 4<sup>th</sup>, 2015.

The offering resulted in \$25.6 million of net proceeds, after deducting underwriting discounts and commissions and other offering expenses of \$2.0 million payable by us. None of the underwriting discounts and commissions or other offering expenses were incurred or paid to the Company's directors or officers or their associates or to persons owning 10% or more of the Company's common stock or to any of the Company's affiliates.

On November 27, 2015, the Company closed a private placement of Series C Noncumulative Perpetual Preferred Stock, resulting in the issuance of 388 shares of Series C 6% Non-Cumulative Perpetual Preferred Shares ("Series C Shares") for gross proceeds of \$3.88 million through December 31, 2015. The costs associated with this private placement were approximately \$32,000. The Series C Shares issued are callable by the Company after December 31<sup>st</sup>, 2017 at \$10,000 per share (liquidation preference value). There is no ability to convert the Series C Shares to common shares. Dividends on the Series C Shares, if and when declared, will be paid quarterly in arrears.

On October 30, 2013, the Company amended its Restated Certificate of Incorporation to revise Article V to amend certain terms related to the Series A 6% Noncumulative Perpetual Preferred Stock and to create a new Series B 6% Noncumulative Perpetual Preferred Stock, which sets forth the number of shares to be included in such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. Such amendment to the Restated Certificate of Incorporation was approved by the directors of the Company on February 20, 2013.

On October 31, 2013, the Company closed a private placement of Series B Noncumulative Perpetual Preferred Stock, resulting in the issuance of 478 shares of Series B 6% Non-Cumulative Perpetual Preferred Shares for gross proceeds of \$4.78 million through December 31, 2014. The costs associated with the private placement were approximately \$24,000. The shares issued are callable by the Company after October 31, 2016, at \$10,000 per share (liquidation preference value). There is no ability to convert the preferred shares to common shares. Dividends on the preferred shares, if and when declared, will be paid quarterly in arrears.

On December 20, 2012, the Company amended its Restated Certificate of Incorporation to include a new Article V, Part (C) which establishes a Series A 6% Noncumulative Perpetual Preferred Stock and sets forth the number of shares to be included in such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. Such amendment to the Restated Certificate of Incorporation was approved by the directors of the Company on October 10, 2012.

On December 31, 2012, the Company closed a private placement of Series A Noncumulative Perpetual Preferred Stock, resulting in the issuance of 865 shares of Series A 6% Non-Cumulative Perpetual Preferred Shares for gross proceeds of \$8.65 million. The costs associated with the private placement were approximately \$80,000. The shares issued are callable by the Company after December 31, 2015, at \$10,000 per share (liquidation preference value). There is no ability to convert the preferred shares to common shares. Dividends on the preferred shares, if and when declared, will be paid quarterly in arrears.

On December 20, 2010, the Company entered into an agreement with a broker to administer a Rule 10b5-1 trading plan on behalf of the Company. The Rule 10b5-1 trading plan will permit the broker to purchase up to 450,000 shares of Company common stock at designated prices during periods when the Company would otherwise be unable to purchase its common stock. The Board of Directors authorized the Rule 10b5-1 trading plan on December 16, 2010. On December 14, 2011, the Company announced a stock repurchase plan to repurchase 5% or 462,225 shares of the Company's common stock. This plan was completed during 2012. On May 9, 2012, the Company announced a stock repurchase plan to repurchase 5% or 462,800 shares of the Company's common stock. This plan was completed during 2012. On June 28, 2012, the Company announced a stock repurchase plan to repurchase 5% or 440,000 shares of the Company's common stock. On July 17, 2013, the Company announced a stock repurchase plan to repurchase up to 400,000 shares of the Company's common stock. During 2015, 2014 and 2013, a total of 0, 884 and 184,808 shares of the Company's common stock was repurchased under these plans at a cost of approximately \$0, \$12,000 and \$1.9 million, or \$0, \$10.37 and \$13.57 per share, respectively.

The Company's primary business is the ownership and operation of BCB Community Bank (the "Bank"). The Bank is a New Jersey commercial bank which, as of December 31, 2015, operated at fifteen locations in Bayonne, Colonia, Fairfield, Hoboken, Jersey City, Monroe Township, South Orange, Rutherford and Woodbridge New Jersey, and Staten Island, New York and is subject to regulation, supervision, and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with borrowed funds, to invest in securities and to make loans collateralized by residential and commercial real estate and, to a lesser extent, consumer loans. BCB Holding Company Investment Corp. (the "New Jersey Investment Company") was organized in January 2005 under New Jersey law as a New Jersey investment company primarily to hold investment and mortgage-backed securities. Pamrapo Service Corporation was organized in 1975 under New Jersey law to engage in the purchase and sale of real estate. In the 1990's, the Pamrapo Service Corporation was engaged in the business of selling non-financial products, (annuities, mutual funds and stocks) to the public. The Pamrapo Service Corporation has been inactive since May 2010. BCB New York Management, Inc. (the "New York Management Company") was organized in October 2012 under New York law as a New York investment company primarily to hold various loan products, investment and mortgage-backed securities. BCB New York Management, Inc. has been inactive since 2012.



## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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#### **Note 2 - Summary of Significant Accounting Policies**

##### **Basis of Consolidated Financial Statement Presentation**

The consolidated financial statements which include the accounts of the Company and its wholly-owned subsidiaries, the Bank, the New Jersey Investment Company, the New York Management Company and Pamrapo Service Corporation, have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the identification of other-than-temporary impairment of securities, the determination as to whether deferred tax assets are realizable, and the determination of the fair value of financial instruments. Management believes that the allowance for loan losses is adequate; no securities in unrealized loss positions are other-than-temporarily impaired; net deferred tax assets have been reduced to an amount which is more-likely-than-not realizable, and the fair values of financial instruments are appropriate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area. Management's assessment regarding impairment of securities is based on future projections of cash flow which are subject to change. The realizability of deferred tax assets is partially based on projections of future taxable income, which is subject to change. The determination of fair value requires the use of various inputs which are subject to frequent and ongoing changes.

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

In preparing these consolidated financial statements, the Company evaluated the events that occurred between December 31, 2015 and the date these consolidated financial statements were issued.

##### **Cash and Cash Equivalents**

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

##### **Securities Available for Sale and Held to Maturity**

Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities or as held to maturity securities are classified as available for sale securities ("AFS") and reported at fair value, with unrealized holding gains or losses, net of applicable deferred income taxes, reported in the accumulated other comprehensive income (loss) component of stockholders' equity. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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" in accordance with Accounting Standards Codification ("ASC") Topic 320, *Investments - Debt and Equity Securities*. Accordingly, temporary impairments are accounted for based upon the classification of the related securities as either available for sale or held to maturity. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through Other Comprehensive Income ("OCI") with offsetting entries adjusting the carrying value of the securities and the balance of deferred taxes. Conversely, the carrying values of held to maturity securities are not adjusted for temporary impairments. Information concerning the amount and duration of temporary impairments on both available for sale and held to maturity securities is disclosed in the notes to the consolidated financial statements.

Other-than-temporary impairments are accounted for based upon several considerations. First, other-than-temporary impairments on debt securities that the Company has decided to sell as of the close of a fiscal period, 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 operations. If neither of these conditions regarding the likelihood of the sale of debt securities are applicable, then the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. A 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. Credit-related, other-than-temporary impairments are recognized in earnings and noncredit-related, other-than-temporary impairments are recognized, net of deferred taxes, in OCI. Equity securities on which there is an unrealized loss that is deemed other-than-temporary impaired are written down to fair value with the write-down recognized in earnings.

Premiums and discounts on all securities are amortized/accreted to maturity using the interest method. Interest and dividend income on securities, which includes amortization of premiums and accretion of discounts, are recognized in the consolidated financial statements when earned.

##### **Loans Held For Sale**

Loans held for sale consist primarily of residential mortgage loans intended for sale and are carried at the lower of cost or estimated fair market value using the aggregate method. These loans are generally sold with servicing rights released. Gains and losses recognized on loan sales are based upon the cash proceeds received and the cost of the related loans sold.

**Note 2 - Summary of Significant Accounting Policies**

**Loans Receivable**

Loans receivable are stated at unpaid principal balances, less net deferred loan origination fees and the allowance for loan losses. Loan origination fees and certain direct loan origination costs are deferred and amortized/accreted, as an adjustment of yield, over the contractual lives of the related loans.

The accrual of interest on loans that are contractually delinquent more than ninety days is discontinued and the related loans are placed on nonaccrual status. All payments received while in nonaccrual status, are applied to principal until the loan has performed as expected for a minimum of six (6) months or until the loan is determined to qualify for return to normal accruing status. Loans may be returned to accrual status when all the principal and interest contractually due are brought current and future payments are reasonably assured.

**Acquired Loans**

Loans that were acquired in acquisitions are recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require an evaluation to determine the need for an allowance for credit losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which is then reclassified as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. The evaluation of the amount of future cash flows that is expected to be collected is performed in a similar manner as that used to determine our allowance for credit losses. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount. The Company has determined that it cannot reasonably estimate future cash flows on any such acquired loans that are past due 90 days or more and continue to treat them as non-accrual.

**Allowance for Loan Losses**

The allowance for loan losses is increased through provisions charged to operations and by recoveries, if any, on previously charged-off loans and reduced by charge-offs on loans which are determined to be a loss in accordance with Bank policy.

The allowance for loan losses is maintained at a level considered adequate to absorb loan losses. Management, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Bank utilizes a two tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potentially impaired loans. Such a system takes into consideration, but is not limited to, delinquency status, size of loans, types and value of collateral, and financial condition of the borrowers. Specific loan loss allowances are established for impaired loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, and management's judgment.

Although management believes that adequate specific and general allowances for loan losses are established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may be necessary.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Bank does not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied to principal.

When a loan is placed on nonaccrual status, amounts previously accrued and recognized as income are reversed. All payments are applied to principal under the cost recovery method. Interest income on nonaccrual loans is recognized on a cash basis.

**Concentration of Risk**

Financial instruments which potentially subject the Company and its subsidiaries to concentrations of credit risk consist of cash and cash equivalents, investment and mortgage-backed securities and loans.

Cash and cash equivalents include amounts placed with highly rated financial institutions. Securities include securities backed by the U.S. Government and other highly rated instruments. The Bank's lending activity is primarily concentrated in loans collateralized by real estate in the State of New Jersey. As a result, credit risk related to loans is broadly dependent on the real estate market and general economic conditions in the State.

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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#### **Note 2 – Summary of Significant Accounting Policies (Continued )**

##### **Premises and Equipment**

Land is carried at cost. Buildings, building improvements, leasehold improvements and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Significant renovations and additions are charged to the property and equipment account. Maintenance and repairs are charged to expense in the period incurred. Depreciation charges are computed on the straight-line method over the following estimated useful lives of each type of asset.

|                                   | <b>Years</b>                            |
|-----------------------------------|---|
| Buildings                         | 40                                      |
| Building improvements             | 7 - 40                                  |
| Furniture, fixtures and equipment | 3 - 5                                   |
| Leasehold improvements            | Shorter of useful life or term of lease |

##### **Federal Home Loan Bank (“FHLB”) of New York Stock**

Federal law requires a member institution of the FHLB system to purchase and hold restricted stock of its district FHLB according to a predetermined formula. Such stock is carried at cost.

Management evaluates the FHLB of New York stock for impairment in accordance with guidance on accounting by entities that lend to or finance the activities of others. Management’s determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB of New York as compared to the capital stock amount for the FHLB of New York and the length of time this situation has persisted, (2) commitments by the FHLB of New York to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB of New York, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB of New York.

No impairment charges were recorded related to the FHLB of New York stock during 2015, 2014, or 2013.

##### **Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs relating to development and improvement of property are capitalized, whereas costs relating to the holding of property are expensed. At December 31, 2015, the Bank owned four properties totaling \$ 1,564,000. At December 31, 2014, the Bank owned seven properties totaling \$ 3,485,000.

##### **Interest Rate Risk**

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to make loans secured by real estate and to purchase securities. The potential for interest-rate risk exists as a result of the difference in duration of the Bank’s interest-sensitive liabilities compared to its interest-sensitive assets. For this reason, management regularly monitors the maturity structure of the Bank’s interest-earning assets and interest-bearing liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

##### **Income Taxes**

The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the Company and its subsidiaries based upon their respective income or loss included in the consolidated income tax return. Separate state income tax returns are filed by the Company and its subsidiaries.

Federal and state 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 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.

**Note 2 – Summary of Significant Accounting Policies (Continued)**

The Company accounts for uncertainty in income taxes recognized in the 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 derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. The Company recognizes interest and penalties on unrecognized tax benefits in income taxes expense in the Consolidated Statement of Operations. The Company did not recognize any interest and penalties for the years ended December 31, 2015, 2014 and 2013. The tax years subject to examination by the Federal taxing authority are the years ended December 31, 2014, 2013, and 2012. The tax years subject to examination by the State taxing authority are the years ended December 31, 2014, 2013, 2012, and 2011.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income less dividends on preferred stock by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. Dilution is not applicable in periods of net loss. For the years ended December 31, 2015, 2014 and 2013, the difference in the weighted average number of basic and diluted common shares was due solely to the effects of outstanding stock options. No adjustments to net income were necessary in calculating basic and diluted net income per share. For the years ended December 31, 2015, 2014 and 2013, the weighted average number of outstanding options considered to be anti-dilutive was 260,500, 126,219, and 213,482, respectively.

**Stock-Based Compensation Plans**

The Company, under plans approved by its stockholders in 2011, 2003 and 2002, has granted stock options to employees and outside directors. See note 13 for additional information as to option grants. Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards' respective requisite service periods. The fair values relating to all options granted are estimated using a Black-Scholes option pricing model. Expected volatilities are based on historical volatility of our stock and other factors, such as implied market volatility using this options expected term. The Company used the mid-point of the original vesting period and original option life to estimate the options' expected term, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company recognizes compensation expense for the fair values of these option awards, which have graded vesting, on a straight-line basis over the requisite service period of these awards.

**Benefit Plans**

The Company acquired, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan (the “Pension Plan”), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the “Pension Plan” to the freeze date have been retained. The benefits are based on years of service and employee's compensation. The defined benefit plan is funded in conformity with funding requirements of applicable government regulations. Prior service costs for the defined benefit plan generally are amortized over the estimated remaining service periods of employees. Additionally, with the merger with Pamrapo Bancorp, Inc., certain former employees of Pamrapo Savings Bank are covered under a Supplemental Executive Retirement Plan (“SERP”), an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the “Normal Retirement Age”), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

**Comprehensive Income (Loss)**

The Company records unrealized gains and losses, net of deferred income taxes, on securities available for sale in accumulated other comprehensive income (loss). Realized gains and losses, if any, are reclassified to non-interest income upon sale of the related securities or upon the recognition of an impairment loss. Accumulated other comprehensive income (loss) also includes benefit plan amounts recognized in accordance with ASC 715, *Compensation-Retirement Benefits*, which reflect, net of tax, the unrecognized gains (losses) on the benefit plans.

**Reclassification**

Certain amounts as of and for the years ended December 31, 2014 and 2013 have been reclassified to conform to the current year's presentation. These changes had no effect on the Company's results of operations or financial position.

**Recent Accounting Pronouncements**

*Accounting Standards Update 2014-14: Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*

The objective of this ASU is to reduce the diversity in practice of when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan and when the related loan receivable should be derecognized and the real estate owned recognized.

This amendment clarifies that an in substance repossession or foreclosure occurs when either a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or b) 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. Upon completion of either of these two events the creditor is considered to have received physical possession of residential real estate property and therefore should derecognize the loan receivable and recognize the real estate owned.

Additionally, this amendment requires interim and annual disclosure of both a) the amount of foreclosed residential real estate property held by the creditor and b) 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

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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the applicable jurisdiction. At December 31, 2015 the amount of foreclosed 1-4 family residential properties held by the Company was \$130,500. As of December 31, 2015 the amount of 1-4 family residential loans in the process of foreclosure was \$2.80 million.

#### *Accounting Standards Update 2014-09: Revenue from Contracts with Customers (Topic 606)*

ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public business entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

The Company is currently evaluating the impact of ASU 2014-09 on our Consolidated Financial Statements.

#### *Proposed Accounting Standards Update (Exposure Draft): Financial Instruments (Topic 825-15) - Credit Losses*

The Board is currently in the process of redeliberating significant issues raised through feedback received from comment letters and outreach activities. FASB expects to issue this proposed accounting standards update in late 2015. An effective date has yet to be discussed.

Impairment model - The Board will continue to refine the Current Expected Credit Loss (CECL) model in the December 2012 proposed Update.

Measurement of expected credit losses - The guidance in the proposed Update regarding an entity's estimate of expected credit losses will be clarified as follows:

1. An entity should revert to a historical average loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts.
2. An entity should consider all contractual cash flows over the life of the related financial assets.
3. When determining the contractual cash flows and the life of the related financial assets:
  - a. An entity should consider expected prepayments
  - b. An entity should not consider expected extensions, renewals, and modifications unless the entity reasonably expects that it will execute a troubled debt restructuring with a borrower.
4. An entity's estimate of expected credit losses should always reflect the risk of loss, even when that risk is remote. However, an entity would not be required to recognize a loss on a financial asset in which the risk of nonpayment is greater than zero yet the amount of loss would be zero.
5. In addition to using a discounted cash flow model to estimate expected credit losses, an entity would not be prohibited from developing an estimate of credit losses using loss-rate methods, probability-of-default methods, or a provision matrix using loss factors.

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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6. The final guidance on expected credit losses will include implementation guidance describing the factors that an entity should consider to adjust historical loss experience for current conditions and reasonable and supportable forecasts.

Accounting for purchased credit impaired (PCI) financial assets - An entity would be required to allocate to each individual financial asset the non-credit-related discount or premium resulting from acquiring a pool of PCI financial assets.

Accounting for troubled debt restructurings (TDRs) - The guidance in the proposed Update regarding the cost basis adjustment for troubled debt restructurings will be clarified to require an entity to increase the cost basis of the restructured financial asset through a corresponding increase in the entity's allowance for expected credit losses in certain TDRs.

An entity may consider prepayment expectations and prospectively reflect an adjusted yield if prepayment speeds are different than expected. (This decision is contingent on the Board's review of staff prepared examples illustrating this approach.)

Nonaccrual of interest income - The Board decided that the final Accounting Standards Update issued for this project will not provide guidance on when an entity ceases to accrue interest income. However, the Board decided to consider adding as pre-agenda research whether U.S. GAAP should provide nonaccrual guidance. The Company is currently evaluating the impact of this update.

#### *Accounting Standards Update 2016-02: Leases (Topic 842)*

FASB issued Accounting Standard Update on accounting for Leases on February 25, 2016. The issuance of this standard marks the completion of one of the last convergence projects the FASB took up with the International Accounting Standards Board (IASB), although the final standard will not be completely converged with the IASB.

The main provisions call for all lease transactions (with terms in excess of 12 months) to be recorded on the balance sheet of the lessee. In general, this recognition will be measured by discounting to present value, using the interest rate implicit in the lease, the expected lease payments to be made over the life of the lease including lease escalators and options (if exercise is likely), as the lease liability. A right to use asset will then be recognized at the same amount as the lease liability. After initial measurement, the lease liability will be reduced based on the lease payments and the right to use asset will be amortized over the life of the lease, normally using the straight-line method.

While both the FASB and the IASB treat the measurement and recognition on the balance sheet in the same fashion, the FASB retains the current two-lease type model for income statement measurement. Leases meeting the definition of an "operating" lease will be recognized on a straight-line basis as the lease payments are made, with the expense recognized as a rent. Leases meeting the definition of a "capital" lease, alternatively will be recognized through interest expense and amortization expense, similar to the current recognition model.

The standard is quite comprehensive and consolidates all of the various lease guidance that exists currently in ASC 840, Leases, including accounting for sale-leaseback transactions and guidance on determining expected lease payments and lease terms. The ASU contains numerous examples to assist with adoption. The ASU also requires more extensive disclosures than those required by ASC 840.

Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The initial measurement of the lease liability will be based on the remaining terms of operating leases in effect at the date of adoption and the remaining expected lease payments, discounted using the lessees incremental borrowing rate at the date of initial application; with a corresponding right to use asset. For capital leases, the existing balance will be carried over under the new standard.

The effective date for the new standard for public entities is for periods beginning after December 15, 2018, and for non-public entities for periods beginning after December 15, 2019, with earlier adoption permitted for all entities. The Company is in the process of evaluating the effect this new standard will have on its consolidated financial statements.

**Note 3 - Related Party Transactions**

The Bank leases a property from New Bay LLC ("New Bay"), a limited liability company 100% owned by a majority of the Directors of the Bank. In conjunction with the lease, New Bay substantially removed the pre-existing structure on the site and constructed a new building suitable to the Bank for its banking operations. Under the terms of the lease, the cost of this project was reimbursed to New Bay by the Bank. The amount reimbursed, which occurred during the year 2000, was \$943,000, and is included in property and equipment under the caption "Building and improvements" (see Note 7).

On May 1, 2006, the Bank renegotiated the lease to a twenty-five year term. The Bank paid New Bay \$165,000 a year (\$13,750 per month) which is included in the Consolidated Statements of Operations for 2015, 2014, and 2013, within occupancy expense of premises. The rent is to be adjusted every five years thereafter at the fair market rental value at the end of each preceding five year period. The Bank expects to pay New Bay \$165,000 for the year 2016.

On February 8, 2012, the Bank entered into a two year lease, which has been extended, for a warehouse with a Director of the Bank. The purpose of the lease is to store documents, consumable supplies, equipment, and furniture not currently in use by the Bank. The Bank paid \$20,400 a year, which is reflected in the Consolidated Statement of Operations for 2015, 2014 and 2013 within occupancy expense of premises. The Bank expects to pay \$20,400 for the year 2016.

The Bank leases a property in Woodbridge, New Jersey from ACB Development LLC, a portion of which is owned by two Directors. Payments under the lease currently total \$15,397 per month. The Bank paid \$190,580.92, \$178,190, and \$165,106 in rent in the years 2015, 2014 and 2013, which is reflected in the Consolidated Statement of Operations for 2015, 2014 and 2013 within occupancy expense of premises. The Bank expects to pay \$184,764 for the year 2016.

On March 6, 2014, the Bank entered into a ten year lease of property in Rutherford, New Jersey with 190 Park Avenue LLC, which is owned by two Directors. The rent is \$2,779 per month and lease payments of \$33,350 and \$25,012 were made in years 2015 and 2014, which is reflected in the 2015 Consolidated Statement of Operations within occupancy expense of premises. The Bank expects to pay \$33,250 for the year 2016.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 4- Securities Available for Sale**

The following table presents by maturity the amortized cost and gross unrealized gains and losses on securities available for sale as of December 31, 2015 and December 31, 2014.

|  | December 31, 2015 |                              |                               |                 |
|--|-------------------|------------------------------|-------------------------------|-----------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value      |
|  | (In Thousands)    |                              |                               |                 |
| <b>Residential mortgage-backed securities:</b> |                   |                              |                               |                 |
| Due after five years through ten years         | \$ 3,418          | \$ 13                        | \$ 73                         | \$ 3,358        |
| Due after ten years                            | 6,238             | 89                           | 62                            | 6,265           |
|  | <u>\$ 9,656</u>   | <u>\$ 102</u>                | <u>\$ 135</u>                 | <u>\$ 9,623</u> |

|  | December 31, 2014 |                              |                               |                 |
|--|-------------------|------------------------------|-------------------------------|-----------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value      |
|  | (In Thousands)    |                              |                               |                 |
| <b>Residential mortgage-backed securities:</b> |                   |                              |                               |                 |
| Due after five years through ten years         | \$ 3,485          | \$ 32                        | \$ 60                         | \$ 3,457        |
| Due after ten years                            | 6,213             | 140                          | 42                            | 6,311           |
|  | <u>\$ 9,698</u>   | <u>\$ 172</u>                | <u>\$ 102</u>                 | <u>\$ 9,768</u> |

The unrealized losses, categorized by the length of time of continuous loss position, and fair value of related securities available for sale were as follows:

|   | Less than 12 Months |                      | More than 12 Months |                      | Total           |                      |
|---|---------------------|----------------------|---------------------|----------------------|-----------------|----------------------|
|   | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value   | Unrealized<br>Losses |
|   | (In Thousands)      |                      |                     |                      |                 |                      |
| <b>December 31, 2015</b>                      |                     |                      |                     |                      |                 |                      |
| <b>Residential mortgage-backed securities</b> | \$ 1,163            | \$ 4                 | \$ 3,686            | \$ 131               | \$ 4,849        | \$ 135               |
|   | <u>\$ 1,163</u>     | <u>\$ 4</u>          | <u>\$ 3,686</u>     | <u>\$ 131</u>        | <u>\$ 4,849</u> | <u>\$ 135</u>        |
| <b>December 31, 2014</b>                      |                     |                      |                     |                      |                 |                      |
| <b>Residential mortgage-backed securities</b> | \$ 1,435            | \$ 5                 | \$ 2,750            | \$ 97                | \$ 4,185        | \$ 102               |
|   | <u>\$ 1,435</u>     | <u>\$ 5</u>          | <u>\$ 2,750</u>     | <u>\$ 97</u>         | <u>\$ 4,185</u> | <u>\$ 102</u>        |

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Company intends to sell the security or more likely than not will be required to sell the security before its anticipated recovery. At December 31, 2015 and 2014, management performed an assessment for possible OTTI of the Company’s residential mortgage-backed securities on an issue-by-issue basis, relying on information obtained from various sources, including publicly available financial data, ratings by external agencies, brokers and other sources. The extent of individual analysis applied to each security depended on the size of the Company’s investment, as well as management’s perception of the credit risk associated with each security. Based on the results of the assessment, management believes impairment of these residential mortgage-backed securities, at December 31, 2015 to be temporary.



**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 5 - Loans Receivable and Allowance for Loan Losses**

The following table presents the recorded investment in loans receivable at December 31, 2015 and December 31, 2014 by segment and class:

|   | December 31, 2015   | December 31, 2014   |
|---|---------------------|---------------------|
|   | (In Thousands)      |                     |
| <b>Originated loans:</b>                        |                     |                     |
| Residential one-to-four family                  | \$ 117,165          | \$ 124,642          |
| Commercial and multi-family                     | 982,828             | 732,791             |
| Construction                                    | 64,008              | 73,497              |
| Commercial business <sup>(1)</sup>              | 70,340              | 54,244              |
| Home equity <sup>(2)</sup>                      | 31,237              | 30,175              |
| Consumer  | 2,365               | 2,178               |
| <b>Sub-total</b>                                | <b>1,267,943</b>    | <b>1,017,527</b>    |
| <b>Acquired loans recorded at fair value:</b>   |                     |                     |
| Residential one-to-four family                  | 67,587              | 81,051              |
| Commercial and multi-family                     | 79,308              | 95,191              |
| Construction                                    | -                   | -                   |
| Commercial business <sup>(1)</sup>              | 4,281               | 6,381               |
| Home equity <sup>(2)</sup>                      | 18,851              | 22,698              |
| Consumer  | 263                 | 652                 |
| <b>Sub-total</b>                                | <b>170,290</b>      | <b>205,973</b>      |
| <b>Acquired loans with deteriorated credit:</b> |                     |                     |
| Residential one-to-four family                  | 1,474               | 1,595               |
| Commercial and multi-family                     | 669                 | 1,130               |
| Construction                                    | -                   | -                   |
| Commercial business <sup>(1)</sup>              | 167                 | 369                 |
| Home equity <sup>(2)</sup>                      | 71                  | 82                  |
| Consumer  | -                   | -                   |
| <b>Sub-total</b>                                | <b>2,381</b>        | <b>3,176</b>        |
| <b>Total Loans</b>                              | <b>1,440,614</b>    | <b>1,226,676</b>    |
| Less:   |                     |                     |
| Deferred loan fees, net                         | (2,454)             | (2,675)             |
| Allowance for loan losses                       | (18,042)            | (16,151)            |
|   | <b>(20,496)</b>     | <b>(18,826)</b>     |
| <b>Total Loans, net</b>                         | <b>\$ 1,420,118</b> | <b>\$ 1,207,850</b> |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

At December 31, 2015 and 2014, loans serviced by the Bank for the benefit of others totaled approximately \$ 147.5 million and \$ 37.0 million, respectively.

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the unpaid principal balance and the related recorded investment of acquired loans included in loans receivable in accompanying Consolidated Statements of Financial Condition. (In Thousands):

|                          | <u>December 31,</u> |    | <u>December 31,</u> |
|--------------------------|---------------------|----|---------------------|
|                          | <u>2015</u>         |    | <u>2014</u>         |
| Unpaid principal balance | \$ 183,046          | \$ | 216,741             |
| Recorded investment      | 172,671             |    | 209,149             |

The following table presents changes in the accretable discount on loans acquired for the years ended December 31, 2015 and 2014. (In Thousands):

|  | <u>Years Ended December 31,</u> |                  |
|--|---------------------------------|------------------|
|  | <u>2015</u>                     | <u>2014</u>      |
| Balance, Beginning of Period                   | \$ 70,522                       | \$ 102,454       |
| Accretion                                      | (17,254)                        | (32,449)         |
| Net Reclassification from Non-Accretable Yield | 344                             | 517              |
| Balance, End of Period                         | <u>\$ 53,612</u>                | <u>\$ 70,522</u> |

The following table presents changes in the non-accretable yield on loans acquired for the years ended December 31, 2015 and 2014. (In Thousands):

|   | <u>Years Ended December 31,</u> |                 |
|---|---------------------------------|-----------------|
|   | <u>2015</u>                     | <u>2014</u>     |
| Balance, Beginning of Period                  | \$ 3,773                        | \$ 4,413        |
| Loans Sold                                    | (388)                           | (123)           |
| Net Reclassification to Accretable Difference | (344)                           | (517)           |
| Balance, End of Period                        | <u>\$ 3,041</u>                 | <u>\$ 3,773</u> |

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The Bank grants loans to its officers and directors and to their associates. The activity with respect to loans to directors, officers and associates of such persons, is as follows:

|                          | Years Ended December 31, |           |
|--------------------------|--------------------------|-----------|
|                          | 2015                     | 2014      |
|                          | (In Thousands)           |           |
| Balance – beginning      | \$ 11,430                | \$ 10,517 |
| Loans originated         | 1,095                    | 2,054     |
| Collections of principal | (81)                     | (1,141)   |
| Balance - ending         | \$ 12,444                | \$ 11,430 |

**Allowance for Loan Losses**

Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management’s assessment of probable estimated losses. The Company’s methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated reserve for performing loans, a specific reserve for impaired loans and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of qualitative factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio into two divisions. Loans that are performing and loans that are impaired. Loans which are performing are evaluated homogeneously by loan class or loan type. The allowance for performing loans is evaluated based on historical loan experience, including consideration of peer loss analysis, with an adjustment for qualitative factors referred to above. Impaired loans are loans which are more than 90 days delinquent or troubled debt restructured. These loans are individually evaluated for loan loss either by current appraisal, or net present value. Management reviews the overall estimate for feasibility and bases the loan loss provision accordingly.

The loan portfolio is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses:

Residential single family real estate loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate residential family real estate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk may be affected by a number of factors including, but not necessarily limited to, job loss, divorce, illness and personal bankruptcy of the borrower.

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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#### **Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

Construction lending is generally considered to involve a high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of the general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not necessarily pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residence.

Commercial and multi-family real estate lending entails significant additional risks as compared with residential family property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial business lending, including lines of credit, is generally considered higher risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on the business. Commercial business loans are primarily secured by inventories and other business assets. In most cases, any repossessed collateral for a defaulted commercial business loans will not provide an adequate source of repayment of the outstanding loan balance.

Home equity lending entails certain risks such as interest rate risk and risk of non-repayment. The marketability of the underlying property may be adversely affected by higher interest rates, decreasing the collateral securing the loan. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy of the borrower. Home equity line of credit lending entails securing an equity interest in the borrower's home. In many cases, the Bank's position in these loans is as a junior lien holder to another institution's superior lien. This type of lending is often priced on an adjustable rate basis with the rate set at or above a predefined index. Adjustable-rate loans decreases the interest rate risk to the Bank that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default.

Other consumer loans generally have more credit risk because of the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans generally have shorter terms and higher interest rates than other lending. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan.

The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates lack some element of precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly.

**Classified Assets.** Our policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as "substandard," "doubtful," "loss" or "special mention."

When we classify problem assets, we may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. As of December 31, 2015, we had \$ 38.0 million in assets classified as substandard, of which \$ 38.0 million were classified as impaired and \$ 15.8 million in assets classified as special mention, of which \$ 8.9 million were classified as impaired. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily due to payment status, because updated financial information has not been timely provided, or the collateral underlying the loan is in the process of being revalued.

The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-4) are treated as "pass" for grading purposes:

5 – *Special Mention* - Loans currently performing but with potential weaknesses including adverse trends in borrower's operations, credit quality, financial strength, or possible collateral deficiency.

6 – *Substandard* - Loans that are inadequately protected by current sound worth, paying capacity, and collateral support. Loans on "nonaccrual" status. The loan needs special and corrective attention.

7 – *Doubtful* - Weaknesses in credit quality and collateral support make full collection improbable, but pending reasonable factors remain sufficient to defer the loss status.

8 – *Loss* - Continuance as a bankable asset is not warranted. However, this does not preclude future attempts at partial recovery.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the year ended December 31, 2015 and recorded investment in loans receivable at December 31, 2015. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

|   | Commercial &    |                  | Commercial    | Home                    |                       |               |               | Total            |
|---|-----------------|------------------|---------------|-------------------------|-----------------------|---------------|---------------|------------------|
|   | Residential     | Multi-family     | Construction  | Business <sup>(1)</sup> | equity <sup>(2)</sup> | Consumer      | Unallocated   |                  |
| <b>Allowance for credit losses:</b>                                 |                 |                  |               |                         |                       |               |               |                  |
| Originated Loans  | \$ 2,364        | \$ 10,028        | \$ 1,080      | \$ 876                  | \$ 333                | \$ 449        | \$ 121        | \$ 15,251        |
| Acquired loans recorded at fair value                               | 417             | 102              | -             | -                       | 58                    | -             | -             | 577              |
| Acquired loans with deteriorated credit                             | 64              | 23               | -             | 233                     | 3                     | -             | -             | 323              |
| <b>Beginning Balance, December 31, 2015</b>                         | <b>2,845</b>    | <b>10,153</b>    | <b>1,080</b>  | <b>1,109</b>            | <b>394</b>            | <b>449</b>    | <b>121</b>    | <b>16,151</b>    |
| <b>Charge-offs:</b>   |                 |                  |               |                         |                       |               |               |                  |
| Originated Loans  | -               | 10               | -             | 80                      | -                     | -             | -             | 90               |
| Acquired loans recorded at fair value                               | 67              | -                | -             | -                       | 106                   | -             | -             | 173              |
| Acquired loans with deteriorated credit                             | -               | -                | -             | 199                     | -                     | -             | -             | 199              |
| Sub-total   | 67              | 10               | -             | 279                     | 106                   | -             | -             | 462              |
| <b>Recoveries:</b>  |                 |                  |               |                         |                       |               |               |                  |
| Originated Loans  | -               | 70               | -             | -                       | -                     | -             | -             | 70               |
| Acquired loans recorded at fair value                               | -               | -                | -             | -                       | 3                     | -             | -             | 3                |
| Acquired loans with deteriorated credit                             | -               | -                | -             | -                       | -                     | -             | -             | -                |
| Sub-total   | -               | 70               | -             | -                       | 3                     | -             | -             | 73               |
| <b>Provisions:</b>  |                 |                  |               |                         |                       |               |               |                  |
| Originated Loans  | (257)           | 1,555            | (358)         | 953                     | 36                    | 430           | 47            | 2,406            |
| Acquired loans recorded at fair value                               | (80)            | (85)             | -             | -                       | 95                    | -             | -             | (70)             |
| Acquired loans with deteriorated credit                             | (17)            | (9)              | -             | (30)                    | -                     | -             | -             | (56)             |
| Sub-total   | (354)           | 1,461            | (358)         | 923                     | 131                   | 430           | 47            | 2,280            |
| <b>Totals:</b>  |                 |                  |               |                         |                       |               |               |                  |
| Originated Loans  | 2,107           | 11,643           | 722           | 1,749                   | 369                   | 879           | 168           | 17,637           |
| Acquired loans recorded at fair value                               | 270             | 17               | -             | -                       | 50                    | -             | -             | 337              |
| Acquired loans with deteriorated credit                             | 47              | 14               | -             | 4                       | 3                     | -             | -             | 68               |
| <b>Ending Balance, December 31, 2015</b>                            | <b>\$ 2,424</b> | <b>\$ 11,674</b> | <b>\$ 722</b> | <b>\$ 1,753</b>         | <b>\$ 422</b>         | <b>\$ 879</b> | <b>\$ 168</b> | <b>\$ 18,042</b> |
| <b>Loans Receivables:</b>   |                 |                  |               |                         |                       |               |               |                  |
| Ending Balance Originated Loans                                     | 117,165         | 982,828          | 64,008        | 70,340                  | 31,237                | 2,365         | -             | 1,267,943        |
| Ending Balance Acquired Loans                                       | 67,587          | 79,308           | -             | 4,281                   | 18,851                | 263           | -             | 170,290          |
| Ending Balance Acquired loans with deteriorated credit              | 1,474           | 669              | -             | 167                     | 71                    | -             | -             | 2,381            |
| Total Gross Loans   | \$ 186,226      | \$ 1,062,805     | \$ 64,008     | \$ 74,788               | \$ 50,159             | \$ 2,628      | -             | \$ 1,440,614     |
| <b>Ending Balance: Loans individually evaluated for impairment:</b> |                 |                  |               |                         |                       |               |               |                  |
| Ending Balance Originated Loans                                     | 9,120           | 14,681           | -             | 4,203                   | 1,456                 | 1,463         | -             | 30,923           |
| Ending Balance Acquired Loans                                       | 9,885           | 6,775            | -             | -                       | 1,363                 | -             | -             | 18,023           |
| Ending Balance Acquired loans with deteriorated credit              | 1,474           | 426              | -             | 167                     | 71                    | -             | -             | 2,138            |
| Ending Balance Loans individually evaluated for impairment          | \$ 20,479       | \$ 21,882        | \$ -          | \$ 4,370                | \$ 2,890              | \$ 1,463      | \$ -          | \$ 51,084        |
| <b>Ending Balance: Loans collectively evaluated for impairment:</b> |                 |                  |               |                         |                       |               |               |                  |
| Ending Balance Originated Loans                                     | 108,045         | 968,147          | 64,008        | 66,137                  | 29,781                | 902           | -             | 1,237,020        |
| Ending Balance Acquired Loans                                       | 57,702          | 72,533           | -             | 4,281                   | 17,488                | 263           | -             | 152,267          |
| Ending Balance Acquired loans with deteriorated credit              | -               | 243              | -             | -                       | -                     | -             | -             | 243              |
| Ending Balance Loans collectively evaluated for impairment          | \$ 165,747      | \$ 1,040,923     | \$ 64,008     | \$ 70,418               | \$ 47,269             | \$ 1,165      | \$ -          | \$ 1,389,530     |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the year ended December 31, 2014 and recorded investment in loans receivable at December 31, 2014. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

|   | Residential     | Commercial & Multi-family | Construction    | Commercial Business <sup>(1)</sup> | Home equity <sup>(2)</sup> | Consumer      | Unallocated   | Total            |
|---|-----------------|---------------------------|-----------------|------------------------------------|----------------------------|---------------|---------------|------------------|
| <b>Allowance for credit losses:</b>                                 |                 |                           |                 |                                    |                            |               |               |                  |
| Originated Loans  | \$ 1,729        | \$ 7,419                  | \$ 700          | \$ 1,295                           | \$ 363                     | \$ 3          | \$ 83         | \$ 11,592        |
| Acquired loans recorded at fair value                               | 832             | 1,744                     | 1               | 44                                 | 129                        | -             | -             | 2,750            |
| Acquired loans with deteriorated credit                             | -               | -                         | -               | -                                  | -                          | -             | -             | -                |
| <b>Beginning Balance, December 31, 2014</b>                         | <b>2,561</b>    | <b>9,163</b>              | <b>701</b>      | <b>1,339</b>                       | <b>492</b>                 | <b>3</b>      | <b>83</b>     | <b>14,342</b>    |
| <b>Charge-offs:</b>   |                 |                           |                 |                                    |                            |               |               |                  |
| Originated Loans  | -               | 388                       | -               | 208                                | 27                         | -             | -             | 623              |
| Acquired loans recorded at fair value                               | 28              | 755                       | -               | -                                  | 29                         | 2             | -             | 814              |
| Acquired loans with deteriorated credit                             | -               | -                         | -               | -                                  | -                          | -             | -             | -                |
| Sub-total   | 28              | 1,143                     | -               | 208                                | 56                         | 2             | -             | 1,437            |
| <b>Recoveries:</b>  |                 |                           |                 |                                    |                            |               |               |                  |
| Originated Loans  | -               | 125                       | -               | 174                                | -                          | -             | -             | 299              |
| Acquired loans recorded at fair value                               | -               | 73                        | 65              | -                                  | 6                          | 3             | -             | 147              |
| Acquired loans with deteriorated credit                             | -               | -                         | -               | -                                  | -                          | -             | -             | -                |
| Sub-total   | -               | 198                       | 65              | 174                                | 6                          | -             | -             | 446              |
| <b>Provisions:</b>  |                 |                           |                 |                                    |                            |               |               |                  |
| Originated Loans  | 635             | 2,872                     | 380             | (385)                              | (3)                        | 446           | 38            | 3,983            |
| Acquired loans recorded at fair value                               | (387)           | (960)                     | (66)            | (44)                               | (48)                       | (1)           | -             | (1,506)          |
| Acquired loans with deteriorated credit                             | 64              | 23                        | -               | 233                                | 3                          | -             | -             | 323              |
| Sub-total   | 312             | 1,935                     | 314             | (196)                              | (48)                       | 445           | 38            | 2,800            |
| <b>Totals:</b>  |                 |                           |                 |                                    |                            |               |               |                  |
| Originated Loans  | 2,364           | 10,028                    | 1,080           | 876                                | 333                        | 449           | 121           | 15,251           |
| Acquired loans recorded at fair value                               | 417             | 102                       | -               | -                                  | 58                         | -             | -             | 577              |
| Acquired loans with deteriorated credit                             | 64              | 23                        | -               | 233                                | 3                          | -             | -             | 323              |
| <b>Ending Balance, December 31, 2014</b>                            | <b>\$ 2,845</b> | <b>\$ 10,153</b>          | <b>\$ 1,080</b> | <b>\$ 1,109</b>                    | <b>\$ 394</b>              | <b>\$ 449</b> | <b>\$ 121</b> | <b>\$ 16,151</b> |
| <b>Loans Receivables:</b>   |                 |                           |                 |                                    |                            |               |               |                  |
| Ending Balance Originated Loans                                     | 124,642         | 732,791                   | 73,497          | 54,244                             | 30,175                     | 2,178         | -             | 1,017,527        |
| Ending Balance Acquired Loans                                       | 81,051          | 95,191                    | -               | 6,381                              | 22,698                     | 652           | -             | 205,973          |
| Ending Balance Acquired loans with deteriorated credit              | 1,595           | 1,130                     | -               | 369                                | 82                         | -             | -             | 3,176            |
| Total Gross Loans   | \$ 207,288      | \$ 829,112                | \$ 73,497       | \$ 60,994                          | \$ 52,955                  | \$ 2,830      | \$ -          | \$ 1,226,676     |
| <b>Ending Balance: Loans individually evaluated for impairment:</b> |                 |                           |                 |                                    |                            |               |               |                  |
| Ending Balance Originated Loans                                     | 12,044          | 9,522                     | -               | 4,935                              | 1,086                      | 1,851         | -             | 29,438           |
| Ending Balance Acquired Loans                                       | 9,783           | 6,377                     | -               | -                                  | 1,164                      | -             | -             | 17,324           |
| Ending Balance Acquired loans with deteriorated credit              | 1,595           | 877                       | -               | 369                                | 82                         | -             | -             | 2,923            |
| Ending Balance Loans individually evaluated for impairment          | \$ 23,422       | \$ 16,776                 | \$ -            | \$ 5,304                           | \$ 2,332                   | \$ 1,851      | \$ -          | \$ 49,685        |
| <b>Ending Balance: Loans collectively evaluated for impairment:</b> |                 |                           |                 |                                    |                            |               |               |                  |
| Ending Balance Originated Loans                                     | 112,598         | 723,269                   | 73,497          | 49,309                             | 29,089                     | 327           | -             | 988,089          |
| Ending Balance Acquired Loans                                       | 71,268          | 88,814                    | -               | 6,381                              | 21,534                     | 652           | -             | 188,649          |
| Ending Balance Acquired loans with deteriorated credit              | -               | 253                       | -               | -                                  | -                          | -             | -             | 253              |
| Ending Balance Loans collectively evaluated for impairment          | \$ 183,866      | \$ 812,336                | \$ 73,497       | \$ 55,690                          | \$ 50,623                  | \$ 979        | \$ -          | \$ 1,176,991     |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the activity in the Bank's allowance for loan losses for the year ended December 31, 2013 and recorded investment in loans receivable at December 31, 2013. The table also details the amount of total loans receivable, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class (In Thousands):

|   | Residential       | Commerical<br>& Multi-<br>family | Construction     | Commercial<br>Business <sup>(1)</sup> | Home<br>equity <sup>(2)</sup> | Consumer        | Unallocated  | Total               |
|---|-------------------|----------------------------------|------------------|---------------------------------------|-------------------------------|-----------------|--------------|---------------------|
| <b>Allowance for credit losses:</b>                                 |                   |                                  |                  |                                       |                               |                 |              |                     |
| Originated Loans:   | \$ 1,143          | \$ 7,088                         | \$ 866           | \$ 576                                | \$ 284                        | \$ 41           | \$ 32        | \$ 10,030           |
| Acquired loans recorded at fair value:                              | 719               | 963                              | 93               | 244                                   | 191                           | 18              | -            | 2,228               |
| Acquired loans with deteriorated credit:                            | 105               | -                                | -                | -                                     | -                             | -               | -            | 105                 |
| <b>Beginning Balance, December 31, 2013</b>                         | 1,967             | 8,051                            | 959              | 820                                   | 475                           | 59              | 32           | 12,363              |
| <b>Charge-offs:</b>   |                   |                                  |                  |                                       |                               |                 |              |                     |
| Originated Loans:   | 6                 | 27                               | -                | 233                                   | 1                             | -               | -            | 267                 |
| Acquired loans recorded at fair value:                              | 23                | 89                               | 132              | 141                                   | 301                           | -               | -            | 686                 |
| Acquired loans with deteriorated credit:                            | 11                | 7                                | -                | -                                     | -                             | -               | -            | -                   |
| Sub-total:  | 40                | 123                              | 132              | 374                                   | 302                           | -               | -            | 971                 |
| <b>Recoveries:</b>  |                   |                                  |                  |                                       |                               |                 |              |                     |
| Originated Loans:   | 42                | -                                | 3                | -                                     | 6                             | -               | -            | 51                  |
| Acquired loans recorded at fair value:                              | -                 | 95                               | -                | 31                                    | -                             | -               | -            | 126                 |
| Acquired loans with deteriorated credit:                            | 4                 | 1                                | -                | 16                                    | 2                             | -               | -            | -                   |
| Sub-total:  | 46                | 96                               | 3                | 47                                    | 8                             | -               | -            | 177                 |
| <b>Provisions:</b>  |                   |                                  |                  |                                       |                               |                 |              |                     |
| Originated Loans:   | 550               | 358                              | (169)            | 952                                   | 74                            | (38)            | 51           | 1,778               |
| Acquired loans recorded at fair value:                              | 136               | 775                              | 40               | (90)                                  | 239                           | (18)            | -            | 1,082               |
| Acquired loans with deteriorated credit:                            | (98)              | 6                                | -                | (16)                                  | (2)                           | -               | -            | (110)               |
| Sub-total:  | 588               | 1,139                            | (129)            | 846                                   | 311                           | (56)            | 51           | 2,750               |
| <b>Totals:</b>  |                   |                                  |                  |                                       |                               |                 |              |                     |
| Originated Loans:   | 1,729             | 7,419                            | 700              | 1,295                                 | 363                           | 3               | 83           | 11,592              |
| Acquired loans recorded at fair value:                              | 832               | 1,744                            | 1                | 44                                    | 129                           | -               | -            | 2,750               |
| Acquired loans with deteriorated credit:                            | -                 | -                                | -                | -                                     | -                             | -               | -            | -                   |
| <b>Ending Balance, December 31, 2013</b>                            | <b>\$ 2,561</b>   | <b>\$ 9,163</b>                  | <b>\$ 701</b>    | <b>\$ 1,339</b>                       | <b>\$ 492</b>                 | <b>\$ 3</b>     | <b>\$ 83</b> | <b>\$ 14,342</b>    |
| <b>Loans Receivables:</b>   |                   |                                  |                  |                                       |                               |                 |              |                     |
| Ending Balance Originated Loans:                                    | 97,581            | 549,918                          | 37,307           | 52,659                                | 28,660                        | 533             | -            | 766,658             |
| Ending Balance Acquired Loans:                                      | 100,612           | 126,123                          | 200              | 10,478                                | 27,313                        | 919             | -            | 265,645             |
| Ending Balance Acquired loans with deteriorated credit:             | 2,141             | 2,081                            | -                | 371                                   | 90                            | -               | -            | 4,683               |
| Total Gross Loans:  | <b>\$ 200,334</b> | <b>\$ 678,122</b>                | <b>\$ 37,507</b> | <b>\$ 63,508</b>                      | <b>\$ 56,063</b>              | <b>\$ 1,452</b> | <b>\$ -</b>  | <b>\$ 1,036,986</b> |
| <b>Ending Balance: Loans individually evaluated for impairment:</b> |                   |                                  |                  |                                       |                               |                 |              |                     |
| Ending Balance Originated Loans:                                    | 1,840             | 8,638                            | -                | 3,870                                 | 833                           | -               | -            | 15,181              |
| Ending Balance Acquired Loans:                                      | 9,930             | 13,434                           | -                | -                                     | 1,460                         | 5               | -            | 24,829              |
| Ending Balance Acquired loans with deteriorated credit:             | 2,141             | 1,815                            | -                | 371                                   | 90                            | -               | -            | 4,417               |
| Ending Balance Loans individually evaluated for impairment:         | <b>\$ 13,911</b>  | <b>\$ 23,887</b>                 | <b>\$ -</b>      | <b>\$ 4,241</b>                       | <b>\$ 2,383</b>               | <b>\$ 5</b>     | <b>\$ -</b>  | <b>\$ 44,427</b>    |
| <b>Ending Balance: Loans collectively evaluated for impairment:</b> |                   |                                  |                  |                                       |                               |                 |              |                     |
| Ending Balance Originated Loans:                                    | 95,741            | 541,280                          | 37,307           | 48,789                                | 27,827                        | 533             | -            | 751,477             |
| Ending Balance Acquired Loans:                                      | 90,682            | 112,689                          | 200              | 10,478                                | 25,853                        | 914             | -            | 240,816             |
| Ending Balance Acquired loans with deteriorated credit:             | -                 | 266                              | -                | -                                     | -                             | -               | -            | 266                 |
| Ending Balance Loans collectively evaluated for impairment:         | <b>\$ 186,423</b> | <b>\$ 654,235</b>                | <b>\$ 37,507</b> | <b>\$ 59,267</b>                      | <b>\$ 53,680</b>              | <b>\$ 1,447</b> | <b>\$ -</b>  | <b>\$ 992,559</b>   |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The table below sets forth the amounts and types of non-accrual loans in the Bank's loan portfolio, at December 31, 2015 and 2014, respectively. Loans are placed on non-accrual status when they become more than 90 days delinquent, or when the collection of principal and/or interest become doubtful. As of December 31, 2015 and 2014, non-accrual loans differed from the amount of total loans past due greater than 90 days due to troubled debt restructuring of loans which are maintained on non-accrual status for a minimum of six months until the borrower has demonstrated its ability to satisfy the terms of the restructured loan.

|   | <u>As of December 31, 2015</u> | <u>As of December 31, 2014</u> |
|---|--------------------------------|--------------------------------|
|   | <u>(In Thousands)</u>          | <u>(In Thousands)</u>          |
| <b>Non-Accruing Loans:</b>                      |                                |                                |
| <b>Originated loans:</b>                        |                                |                                |
| Residential one-to-four family                  | \$ 2,603                       | \$ 2,893                       |
| Commercial and multi-family                     | 9,782                          | 8,386                          |
| Construction                                    | -                              | -                              |
| Commercial business <sup>(1)</sup>              | 718                            | 258                            |
| Home equity <sup>(2)</sup>                      | 777                            | 334                            |
| Consumer  | -                              | -                              |
| <b>Sub-total:</b>                               | <b>\$ 13,880</b>               | <b>\$ 11,871</b>               |
| <b>Acquired loans recorded at fair value:</b>   |                                |                                |
| Residential one-to-four family                  | \$ 5,592                       | \$ 4,786                       |
| Commercial and multi-family                     | 3,025                          | 1,969                          |
| Construction                                    | -                              | -                              |
| Commercial business <sup>(1)</sup>              | -                              | -                              |
| Home equity <sup>(2)</sup>                      | 665                            | 527                            |
| Consumer  | -                              | -                              |
| <b>Sub-total:</b>                               | <b>\$ 9,282</b>                | <b>\$ 7,282</b>                |
| <b>Acquired loans with deteriorated credit:</b> |                                |                                |
| Residential one-to-four family                  | \$ -                           | \$ -                           |
| Commercial and multi-family                     | -                              | -                              |
| Construction                                    | -                              | -                              |
| Commercial business <sup>(1)</sup>              | 167                            | 369                            |
| Home equity <sup>(2)</sup>                      | 118                            | 82                             |
| Consumer  | -                              | -                              |
| <b>Sub-total:</b>                               | <b>\$ 285</b>                  | <b>\$ 451</b>                  |
| <b>Total</b>                                    | <b>\$ 23,447</b>               | <b>\$ 19,604</b>               |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Had non-accrual loans been performing in accordance with their original terms, the interest income recognized for the years ended December 31, 2015, 2014 and 2013 would have been approximately \$ 1.13 million, \$ 1.06 million and \$ 1.36 million, respectively. Interest income recognized on such loans was approximately \$ 326,000, \$ 784,000 and \$ 769,000 respectively. The Bank is not committed to lend additional funds to the borrowers whose loans have been placed on a nonaccrual status. At December 31, 2015 and 2014, there were \$586,000 and \$0, respectively, of loans which were more than ninety days past due and still accruing interest.

During 2014, the Bank sold approximately \$ 14.4 million of non-performing loans for the purposes of eliminating future carrying costs associated with these non-interest earning assets and improving the overall quality of the loan portfolio. The sale of this sub-set of the non-performing loan portfolio for approximately \$ 10.4 million in cash proceeds resulted in a pre-tax loss of approximately \$ 4.0 million. The loans sold consisted of \$ 12.1 million of commercial and multi-family real estate loans and \$ 2.3 million of commercial business loans.



**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the recorded investment and unpaid principal balances where there is no related allowance on impaired loans by portfolio class for the years ended December 31, 2015 and December 31, 2014. (In Thousands):

|  | As of December 31, 2015 |                          |                   | As of December 31, 2014 |                          |                   |
|--|-------------------------|--------------------------|-------------------|-------------------------|--------------------------|-------------------|
|  | Recorded Investment     | Unpaid Principal Balance | Related Allowance | Recorded Investment     | Unpaid Principal Balance | Related Allowance |
| <b>Originated loans with no related allowance recorded:</b>                        |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ 3,136                | \$ 3,199                 | \$ -              | \$ 2,809                | \$ 2,825                 | \$ -              |
| Commercial and multi-family  | 10,709                  | 10,934                   | -                 | 7,202                   | 7,639                    | -                 |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | 2,123                   | 3,183                    | -                 | 3,336                   | 3,336                    | -                 |
| Home equity <sup>(2)</sup>   | 1,270                   | 1,326                    | -                 | 537                     | 550                      | -                 |
| Consumer   | \$ -                    | \$ -                     | -                 | -                       | -                        | -                 |
| <b>Sub-total:</b>  | <b>\$ 17,238</b>        | <b>\$ 18,642</b>         | <b>\$ -</b>       | <b>\$ 13,884</b>        | <b>\$ 14,350</b>         | <b>\$ -</b>       |
| <b>Acquired loans recorded at fair value with no related allowance recorded:</b>   |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ 7,646                | \$ 8,082                 | \$ -              | \$ 4,696                | \$ 4,849                 | \$ -              |
| Commercial and Multi-family  | 4,383                   | 4,483                    | -                 | 5,002                   | 5,060                    | -                 |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | -                       | -                        | -                 | -                       | -                        | -                 |
| Home equity <sup>(2)</sup>   | 884                     | 1,061                    | -                 | 612                     | 626                      | -                 |
| Consumer   | -                       | -                        | -                 | -                       | -                        | -                 |
| <b>Sub-total:</b>  | <b>\$ 12,913</b>        | <b>\$ 13,626</b>         | <b>\$ -</b>       | <b>\$ 10,310</b>        | <b>\$ 10,535</b>         | <b>\$ -</b>       |
| <b>Acquired loans with deteriorated credit with no related allowance recorded:</b> |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ 1,474                | \$ 2,101                 | \$ -              | \$ 1,505                | \$ 2,133                 | \$ -              |
| Commercial and Multi-family  | 426                     | 574                      | -                 | 877                     | 1,034                    | -                 |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | -                       | -                        | -                 | -                       | 274                      | -                 |
| Home equity <sup>(2)</sup>   | 71                      | 135                      | -                 | 82                      | 137                      | -                 |
| Consumer   | \$ -                    | \$ -                     | -                 | -                       | -                        | -                 |
| <b>Sub-total:</b>  | <b>\$ 1,971</b>         | <b>\$ 2,810</b>          | <b>\$ -</b>       | <b>\$ 2,464</b>         | <b>\$ 3,578</b>          | <b>\$ -</b>       |
| <b>Total Impaired Loans with no related allowance recorded:</b>                    | <b>\$ 32,122</b>        | <b>\$ 35,078</b>         | <b>\$ -</b>       | <b>\$ 26,658</b>        | <b>\$ 28,463</b>         | <b>\$ -</b>       |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the recorded investment, unpaid principal balance, and the related allowance on impaired loans by portfolio class for the years ended December 31, 2015 and December 31, 2014. (In Thousands):

|  | As of December 31, 2015 |                          |                   | As of December 31, 2014 |                          |                   |
|--|-------------------------|--------------------------|-------------------|-------------------------|--------------------------|-------------------|
|  | Recorded Investment     | Unpaid Principal Balance | Related Allowance | Recorded Investment     | Unpaid Principal Balance | Related Allowance |
| <b>Originated loans with an allowance recorded:</b>                        |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ 5,984                | \$ 5,993                 | \$ 594            | \$ 9,235                | \$ 9,247                 | \$ 720            |
| Commercial and Multi-family  | 3,972                   | 3,972                    | 1,069             | 2,320                   | 2,364                    | 933               |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | 2,080                   | 2,445                    | 841               | 1,599                   | 1,722                    | 79                |
| Home equity <sup>(2)</sup>   | 186                     | 189                      | 3                 | 549                     | 550                      | 5                 |
| Consumer   | 1,463                   | 1,463                    | 876               | 1,851                   | 1,851                    | 446               |
| <b>Sub-total:</b>  | <b>\$ 13,685</b>        | <b>\$ 14,062</b>         | <b>\$ 3,383</b>   | <b>\$ 15,554</b>        | <b>\$ 15,734</b>         | <b>\$ 2,183</b>   |
| <b>Acquired loans recorded at fair value with an allowance recorded:</b>   |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ 2,239                | \$ 2,402                 | \$ 219            | \$ 5,087                | \$ 5,130                 | \$ 254            |
| Commercial and Multi-family  | 2,392                   | 2,496                    | 85                | 1,375                   | 1,408                    | 154               |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | -                       | -                        | -                 | -                       | -                        | -                 |
| Home equity <sup>(2)</sup>   | 479                     | 518                      | 36                | 552                     | 561                      | 49                |
| Consumer   | -                       | -                        | -                 | -                       | -                        | -                 |
| <b>Sub-total</b>   | <b>\$ 5,110</b>         | <b>\$ 5,416</b>          | <b>\$ 340</b>     | <b>\$ 7,014</b>         | <b>\$ 7,099</b>          | <b>\$ 457</b>     |
| <b>Acquired loans with deteriorated credit with an allowance recorded:</b> |                         |                          |                   |                         |                          |                   |
| Residential one-to-four family   | \$ -                    | \$ -                     | \$ -              | \$ 90                   | \$ 105                   | \$ 14             |
| Commercial and Multi-family  | -                       | -                        | -                 | -                       | 118                      | -                 |
| Construction   | -                       | -                        | -                 | -                       | -                        | -                 |
| Commercial business <sup>(1)</sup>   | 167                     | 368                      | -                 | 369                     | 369                      | 217               |
| Home equity <sup>(2)</sup>   | -                       | -                        | -                 | -                       | -                        | -                 |
| Consumer   | -                       | -                        | -                 | -                       | \$ -                     | -                 |
| <b>Sub-total:</b>  | <b>\$ 167</b>           | <b>\$ 368</b>            | <b>\$ -</b>       | <b>\$ 459</b>           | <b>\$ 592</b>            | <b>\$ 231</b>     |
| <b>Total Impaired Loans with an allowance recorded:</b>                    | <b>\$ 18,962</b>        | <b>\$ 19,846</b>         | <b>\$ 3,723</b>   | <b>\$ 23,027</b>        | <b>\$ 23,425</b>         | <b>\$ 2,871</b>   |
| <b>Total Impaired Loans with no related allowance recorded:</b>            | <b>\$ 32,122</b>        | <b>\$ 35,078</b>         | <b>\$ -</b>       | <b>\$ 26,658</b>        | <b>\$ 28,463</b>         | <b>\$ -</b>       |
| <b>Total Impaired Loans:</b>   | <b>\$ 51,084</b>        | <b>\$ 54,924</b>         | <b>\$ 3,723</b>   | <b>\$ 49,685</b>        | <b>\$ 51,888</b>         | <b>\$ 2,871</b>   |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the average recorded investment and actual interest income recognized on impaired loans with no related allowance recorded by portfolio class for the years ended December 31, 2015 and 2014. (In Thousands):

|  | Years Ended December 31,          |                                  |                                   |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  | 2015                              | 2015                             | 2014                              | 2014                             |
|  | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>Originated loans<br/>with no related allowance recorded:</b>                            |                                   |                                  |                                   |                                  |
| Residential one-to-four family   | \$ 2,996                          | \$ 83                            | \$ 1,613                          | \$ 132                           |
| Commercial and multi-family  | 9,599                             | 322                              | 5,295                             | 140                              |
| Construction   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>   | 2,438                             | 8                                | 3,051                             | 84                               |
| Home equity <sup>(2)</sup>   | 1,073                             | 41                               | 470                               | 21                               |
| Consumer   | -                                 | -                                | -                                 | -                                |
| <b>Sub-total:</b>  | <b>\$ 16,106</b>                  | <b>\$ 454</b>                    | <b>\$ 10,429</b>                  | <b>\$ 377</b>                    |
| <b>Acquired loans recorded at fair value<br/>with no related allowance recorded:</b>       |                                   |                                  |                                   |                                  |
| Residential one-to-four family   | \$ 6,849                          | \$ 289                           | \$ 4,580                          | \$ 176                           |
| Commercial and Multi-family  | 4,639                             | 120                              | 4,033                             | 186                              |
| Construction   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>   | -                                 | -                                | -                                 | -                                |
| Home equity <sup>(2)</sup>   | 796                               | 25                               | 724                               | 10                               |
| Consumer   | -                                 | -                                | 3                                 | -                                |
| <b>Sub-total:</b>  | <b>\$ 12,284</b>                  | <b>\$ 434</b>                    | <b>\$ 9,340</b>                   | <b>\$ 372</b>                    |
| <b>Acquired loans with deteriorated<br/>credit with no related allowance<br/>recorded:</b> |                                   |                                  |                                   |                                  |
| Residential one-to-four family   | \$ 1,486                          | \$ -                             | \$ 1,823                          | \$ 84                            |
| Commercial and Multi-family  | 760                               | -                                | 1,346                             | 53                               |
| Construction   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>   | 90                                | -                                | 186                               | 3                                |
| Home equity <sup>(2)</sup>   | 76                                | 4                                | 86                                | 9                                |
| Consumer   | -                                 | -                                | -                                 | -                                |
| <b>Sub-total:</b>  | <b>\$ 2,412</b>                   | <b>\$ 4</b>                      | <b>\$ 3,441</b>                   | <b>\$ 149</b>                    |
| <b>Total Impaired Loans<br/>with no related allowance recorded:</b>                        | <b>\$ 30,802</b>                  | <b>\$ 892</b>                    | <b>\$ 23,210</b>                  | <b>\$ 898</b>                    |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes the average recorded investment and actual interest income recognized on impaired loans with allowance recorded by portfolio class for the years ended December 31, 2015 and 2014. (In Thousands):

|  | Years Ended December 31,          |                                  |                                   |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  | 2015                              | 2015                             | 2014                              | 2014                             |
|  | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>Originated loans</b>                        |                                   |                                  |                                   |                                  |
| <b>with an allowance recorded:</b>             |                                   |                                  |                                   |                                  |
| Residential one-to-four family                 | \$ 7,211                          | \$ 48                            | \$ 5,329                          | \$ 328                           |
| Commercial and Multi-family                    | 3,650                             | 190                              | 3,785                             | 60                               |
| Construction                                   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>             | 2,170                             | 37                               | 1,352                             | 27                               |
| Home equity <sup>(2)</sup>                     | 281                               | 2                                | 490                               | -                                |
| Consumer                                       | 1,515                             | -                                | 926                               | -                                |
| <b>Sub-total:</b>                              | <b>\$ 14,827</b>                  | <b>\$ 277</b>                    | <b>\$ 11,882</b>                  | <b>\$ 415</b>                    |
| <b>Acquired loans recorded at fair value</b>   |                                   |                                  |                                   |                                  |
| <b>with an allowance recorded:</b>             |                                   |                                  |                                   |                                  |
| Residential one-to-four family                 | \$ 3,187                          | \$ 27                            | \$ 5,277                          | \$ 103                           |
| Commercial and Multi-family                    | 2,275                             | 57                               | 5,873                             | 43                               |
| Construction                                   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>             | -                                 | -                                | -                                 | -                                |
| Home equity <sup>(2)</sup>                     | 358                               | 12                               | 589                               | 21                               |
| Consumer                                       | -                                 | -                                | -                                 | -                                |
| <b>Sub-total</b>                               | <b>\$ 5,820</b>                   | <b>\$ 96</b>                     | <b>\$ 11,739</b>                  | <b>\$ 167</b>                    |
| <b>Acquired loans with deteriorated credit</b> |                                   |                                  |                                   |                                  |
| <b>with an allowance recorded:</b>             |                                   |                                  |                                   |                                  |
| Residential one-to-four family                 | \$ 67                             | \$ -                             | \$ 45                             | \$ 4                             |
| Commercial and Multi-family                    | -                                 | -                                | -                                 | 4                                |
| Construction                                   | -                                 | -                                | -                                 | -                                |
| Commercial business <sup>(1)</sup>             | 84                                | 5                                | 185                               | 12                               |
| Home equity <sup>(2)</sup>                     | -                                 | -                                | -                                 | -                                |
| Consumer                                       | -                                 | -                                | -                                 | -                                |
| <b>Sub-total:</b>                              | <b>\$ 151</b>                     | <b>\$ 5</b>                      | <b>\$ 230</b>                     | <b>\$ 20</b>                     |
| <b>Total Impaired Loans</b>                    |                                   |                                  |                                   |                                  |
| <b>with an allowance recorded:</b>             | <b>\$ 20,798</b>                  | <b>\$ 378</b>                    | <b>\$ 23,851</b>                  | <b>\$ 602</b>                    |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the total troubled debt restructured loans at December 31, 2015, excluding the purchase impairment mark on the acquired loans with deteriorated credit:

| December 31, 2015                               | Accrual                |                          | Non-accrual            |                          | Total                  |                          |
|---|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
|   | # of Loans<br>(Actual) | Amount<br>(In Thousands) | # of Loans<br>(Actual) | Amount<br>(In Thousands) | # of Loans<br>(Actual) | Amount<br>(In Thousands) |
| <b>Originated loans:</b>                        |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family                  | 6                      | \$ 1,845                 | 1                      | \$ 824                   | 7                      | \$ 2,669                 |
| Commercial and multi-family                     | 4                      | 3,270                    | 9                      | 4,297                    | 13                     | 7,567                    |
| Construction                                    | -                      | -                        | -                      | -                        | -                      | -                        |
| Commercial business <sup>(1)</sup>              | 1                      | 778                      | 2                      | 705                      | 3                      | 1,483                    |
| Home equity <sup>(2)</sup>                      | 2                      | 491                      | 3                      | 157                      | 5                      | 648                      |
| Consumer  | -                      | -                        | -                      | -                        | -                      | -                        |
| <b>Sub-total:</b>                               | <b>13</b>              | <b>\$ 6,384</b>          | <b>15</b>              | <b>\$ 5,983</b>          | <b>28</b>              | <b>\$ 12,367</b>         |
| <b>Acquired loans recorded at fair value:</b>   |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family                  | 16                     | \$ 3,604                 | 13                     | \$ 3,402                 | 29                     | \$ 7,006                 |
| Commercial and Multi-family                     | 13                     | 4,863                    | 1                      | 582                      | 14                     | 5,445                    |
| Construction                                    | -                      | -                        | -                      | -                        | -                      | -                        |
| Commercial business <sup>(1)</sup>              | -                      | -                        | -                      | -                        | -                      | -                        |
| Home equity <sup>(2)</sup>                      | 5                      | 512                      | 1                      | 220                      | 6                      | 732                      |
| Consumer  | -                      | -                        | -                      | -                        | -                      | -                        |
| <b>Sub-total:</b>                               | <b>34</b>              | <b>\$ 8,979</b>          | <b>15</b>              | <b>\$ 4,204</b>          | <b>49</b>              | <b>\$ 13,183</b>         |
| <b>Acquired loans with deteriorated credit:</b> |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family                  | 5                      | \$ 2,101                 | -                      | \$ -                     | 5                      | \$ 2,101                 |
| Commercial and Multi-family                     | 2                      | 574                      | -                      | -                        | 2                      | 574                      |
| Construction                                    | -                      | -                        | -                      | -                        | -                      | -                        |
| Commercial business <sup>(1)</sup>              | -                      | -                        | 1                      | 167                      | 1                      | 167                      |
| Home equity <sup>(2)</sup>                      | -                      | -                        | 1                      | 118                      | 1                      | 118                      |
| Consumer  | -                      | -                        | -                      | -                        | -                      | -                        |
| <b>Sub-total:</b>                               | <b>7</b>               | <b>\$ 2,675</b>          | <b>2</b>               | <b>\$ 285</b>            | <b>9</b>               | <b>\$ 2,960</b>          |
| <b>Total</b>                                    | <b>54</b>              | <b>\$ 18,038</b>         | <b>32</b>              | <b>\$ 10,472</b>         | <b>86</b>              | <b>\$ 28,510</b>         |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

All TDRs were considered impaired and therefore were individually evaluated for impairment in the calculation of the allowance for loan losses. Prior to their classification as TDRs, certain of these loans had been collectively evaluated for impairment in the calculation of the allowance for loan losses.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the total troubled debt restructured loans at December 31, 2014, excluding the purchase impairment mark on the acquired loans with deteriorated credit:

| December 31, 2014                        | Accrual                |                          | Non-accrual            |                          | Total                  |                          |
|--|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
|  | # of Loans<br>(Actual) | Amount<br>(In Thousands) | # of Loans<br>(Actual) | Amount<br>(In Thousands) | # of Loans<br>(Actual) | Amount<br>(In Thousands) |
| Originated loans:                        |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family           | 7                      | \$ 2,201                 | 2                      | \$ 1,323                 | 9                      | \$ 3,524                 |
| Commercial and multi-family              | 3                      | 1,065                    | 9                      | 6,446                    | 12                     | 7,511                    |
| Construction                             | -                      | -                        | -                      | -                        | 0                      | 0                        |
| Commercial business <sup>(1)</sup>       | 1                      | 798                      | -                      | -                        | 1                      | 798                      |
| Home equity <sup>(2)</sup>               | 2                      | 508                      | 2                      | 117                      | 4                      | 625                      |
| Consumer                                 | -                      | -                        | -                      | -                        | 0                      | 0                        |
| Sub-total:                               | 13                     | \$ 4,572                 | 13                     | \$ 7,886                 | 26                     | \$ 12,458                |
| Acquired loans recorded at fair value:   |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family           | 22                     | \$ 4,782                 | 11                     | \$ 2,818                 | 33                     | \$ 7,600                 |
| Commercial and Multi-family              | 13                     | 5,011                    | 1                      | 614                      | 14                     | 5,625                    |
| Construction                             | -                      | -                        | -                      | -                        | 0                      | 0                        |
| Commercial business <sup>(1)</sup>       | -                      | -                        | -                      | -                        | 0                      | 0                        |
| Home equity <sup>(2)</sup>               | 5                      | 637                      | 1                      | 217                      | 6                      | 854                      |
| Consumer                                 | -                      | -                        | -                      | -                        | 0                      | 0                        |
| Sub-total:                               | 40                     | \$ 10,430                | 13                     | \$ 3,649                 | 53                     | \$ 14,079                |
| Acquired loans with deteriorated credit: |                        |                          |                        |                          |                        |                          |
| Residential one-to-four family           | 6                      | \$ 2,238                 | -                      | \$ -                     | 6                      | \$ 2,238                 |
| Commercial and Multi-family              | 3                      | 1,152                    | -                      | -                        | 3                      | 1,152                    |
| Construction                             | -                      | -                        | -                      | -                        | -                      | -                        |
| Commercial business <sup>(1)</sup>       | 3                      | 274                      | 1                      | 369                      | 4                      | 643                      |
| Home equity <sup>(2)</sup>               | -                      | -                        | 1                      | 129                      | 1                      | 129                      |
| Consumer                                 | -                      | -                        | -                      | -                        | -                      | -                        |
| Sub-total:                               | 12                     | \$ 3,664                 | 2                      | \$ 498                   | 14                     | \$ 4,162                 |
| Total                                    | 65                     | \$ 18,666                | 28                     | \$ 12,033                | 93                     | \$ 30,699                |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

A troubled debt restructuring (“TDR”) is a loan that has been modified whereby the Bank has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Bank to maximize the ultimate recovery of a loan. TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a modification that would otherwise not be granted to the borrower. The types of concessions granted are generally included, but not limited to interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal.

The following table summarizes information in regards to troubled debt restructurings during the year ended December 31, 2015. (In thousands):

| Year Ended December 31, 2015                    | Number of Contracts | Pre-Modification Outstanding<br>Recorded Investments | Post-Modification Outstanding<br>Recorded Investments |
|---|---------------------|--|---|
| <b>Originated loans:</b>                        |                     |  |   |
| Residential one-to-four family                  | 1                   | \$ 836   | \$ 836  |
| Commercial and multi-family                     | 1                   | 55   | 55  |
| Construction                                    | -                   | -  | -   |
| Commercial business <sup>(1)</sup>              | 1                   | 236  | 246   |
| Home equity <sup>(2)</sup>                      | 1                   | 17   | 53  |
| Consumer  | -                   | -  | -   |
| <b>Sub-total:</b>                               | <b>4</b>            | <b>\$ 1,144</b>                                      | <b>\$ 1,190</b>                                       |
| <b>Acquired loans recorded at fair value:</b>   |                     |  |   |
| Residential one-to-four family                  | 3                   | \$ 1,533   | \$ 1,562  |
| Commercial and Multi-family                     | -                   | -  | -   |
| Construction                                    | -                   | -  | -   |
| Commercial business <sup>(1)</sup>              | -                   | -  | -   |
| Home equity <sup>(2)</sup>                      | 2                   | 398  | 367   |
| Consumer  | -                   | -  | -   |
| <b>Sub-total:</b>                               | <b>5</b>            | <b>\$ 1,931</b>                                      | <b>\$ 1,929</b>                                       |
| <b>Acquired loans with deteriorated credit:</b> |                     |  |   |
| Residential one-to-four family                  | -                   | \$ -   | \$ -  |
| Commercial and Multi-family                     | -                   | -  | -   |
| Construction                                    | -                   | -  | -   |
| Commercial business <sup>(1)</sup>              | -                   | -  | -   |
| Home equity <sup>(2)</sup>                      | -                   | -  | -   |
| Consumer  | -                   | -  | -   |
| <b>Sub-total:</b>                               | <b>-</b>            | <b>\$ -</b>  | <b>\$ -</b>   |
| <b>Total</b>                                    | <b>9</b>            | <b>\$ 3,075</b>                                      | <b>\$ 3,119</b>                                       |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes information in regards to troubled debt restructurings during the year ended December 31, 2014. (In thousands):

| Year Ended December 31, 2014             | Number of Contracts | Pre-Modification Outstanding<br>Recorded Investments | Post-Modification Outstanding<br>Recorded Investments |
|--|---------------------|--|---|
| Originated loans:                        |                     |  |   |
| Residential one-to-four family           | 3                   | \$ 1777  | \$ 1777   |
| Commercial and multi-family              | 1                   | 805  | 805   |
| Construction                             | -                   | -  | -   |
| Commercial business <sup>(1)</sup>       | -                   | -  | -   |
| Home equity <sup>(2)</sup>               | 1                   | 32   | 64  |
| Consumer                                 | -                   | -  | -   |
| Sub-total:                               | 5                   | \$ 2,614   | \$ 2,646  |
| Acquired loans recorded at fair value:   |                     |  |   |
| Residential one-to-four family           | 4                   | \$ 412   | \$ 453  |
| Commercial and Multi-family              | 1                   | 187  | 205   |
| Construction                             | -                   | -  | -   |
| Commercial business <sup>(1)</sup>       | -                   | -  | -   |
| Home equity <sup>(2)</sup>               | 1                   | 256  | 262   |
| Consumer                                 | -                   | -  | -   |
| Sub-total:                               | 6                   | \$ 855   | \$ 920  |
| Acquired loans with deteriorated credit: |                     |  |   |
| Residential one-to-four family           | -                   | \$ 993   | \$ 993  |
| Commercial and Multi-family              | -                   | -  | -   |
| Construction                             | -                   | -  | -   |
| Commercial business <sup>(1)</sup>       | -                   | -  | -   |
| Home equity <sup>(2)</sup>               | -                   | -  | -   |
| Consumer                                 | -                   | -  | -   |
| Sub-total:                               | -                   | \$ 993   | \$ 993  |
| Total                                    | 11                  | \$ 4,462   | \$ 4,559  |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.



**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes information in regards to troubled debt restructurings for which there was a payment default, within twelve months of restructuring, (In thousands):

Year Ended December 31, 2015

|   | <u>Number of Contracts</u> | <u>Recorded Investment</u> |
|---|----------------------------|----------------------------|
| <b>Originated loans:</b>                        |                            |                            |
| Residential one-to-four family                  | 1                          | \$ 824                     |
| Commercial and multi-family                     | -                          | -                          |
| Construction                                    | -                          | -                          |
| Commercial business <sup>(1)</sup>              | -                          | -                          |
| Home equity <sup>(2)</sup>                      | -                          | -                          |
| Consumer  | -                          | -                          |
| <b>Sub-total:</b>                               | <b>1</b>                   | <b>\$ 824</b>              |
| <b>Acquired loans recorded at fair value:</b>   |                            |                            |
| Residential one-to-four family                  | 1                          | \$ 968                     |
| Commercial and Multi-family                     | -                          | -                          |
| Construction                                    | -                          | -                          |
| Commercial business <sup>(1)</sup>              | -                          | -                          |
| Home equity <sup>(2)</sup>                      | -                          | -                          |
| Consumer  | -                          | -                          |
| <b>Sub-total:</b>                               | <b>1</b>                   | <b>\$ 968</b>              |
| <b>Acquired loans with deteriorated credit:</b> |                            |                            |
| Residential one-to-four family                  | -                          | -                          |
| Commercial and Multi-family                     | -                          | -                          |
| Construction                                    | -                          | -                          |
| Commercial business <sup>(1)</sup>              | -                          | -                          |
| Home equity <sup>(2)</sup>                      | -                          | -                          |
| Consumer  | -                          | -                          |
| <b>Sub-total:</b>                               | <b>-</b>                   | <b>\$ -</b>                |
| <b>Total</b>                                    | <b>2</b>                   | <b>\$ 1,792</b>            |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table summarizes information in regards to troubled debt restructurings for which there was a payment default, within twelve months of restructuring, (In thousands):

Year Ended December 31, 2014

|  | Number of Contracts | Recorded Investment |
|--|---------------------|---------------------|
| Originated loans:                        |                     |                     |
| Residential one-to-four family           | -                   | \$ -                |
| Commercial and multi-family              | -                   | -                   |
| Construction                             | -                   | -                   |
| Commercial business <sup>(1)</sup>       | -                   | -                   |
| Home equity <sup>(2)</sup>               | -                   | -                   |
| Consumer                                 | -                   | -                   |
| Sub-total:                               | -                   | \$ -                |
| Acquired loans recorded at fair value:   |                     |                     |
| Residential one-to-four family           | -                   | \$ -                |
| Commercial and Multi-family              | -                   | -                   |
| Construction                             | -                   | -                   |
| Commercial business <sup>(1)</sup>       | -                   | -                   |
| Home equity <sup>(2)</sup>               | -                   | -                   |
| Consumer                                 | -                   | -                   |
| Sub-total:                               | -                   | \$ -                |
| Acquired loans with deteriorated credit: |                     |                     |
| Residential one-to-four family           | 1                   | \$ 982              |
| Commercial and Multi-family              | -                   | -                   |
| Construction                             | -                   | -                   |
| Commercial business <sup>(1)</sup>       | -                   | -                   |
| Home equity <sup>(2)</sup>               | -                   | -                   |
| Consumer                                 | -                   | -                   |
| Sub-total:                               | 1                   | \$ 982              |
| Total                                    | 1                   | \$ 982              |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the delinquency status of total loans receivable at December 31, 2015 :

|   | 30-59 Days<br>Past Due | 60-90 Days<br>Past Due | Greater Than<br>90 Days | Total Past<br>Due | Current             | Total Loans<br>Receivable | Loans Receivable<br>>90 Days<br>and Accruing |
|---|------------------------|------------------------|-------------------------|-------------------|---------------------|---------------------------|--|
| (In Thousands)                                  |                        |                        |                         |                   |                     |                           |  |
| <b>Originated loans:</b>                        |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ 3,495               | \$ 786                 | \$ 1,577                | \$ 5,858          | \$ 111,307          | \$ 117,165                | \$ -   |
| Commercial and multi-family                     | 12,491                 | 3,362                  | 6,467                   | 22,320            | 960,508             | 982,828                   | 578  |
| Construction                                    | 4,677                  | 80                     | -                       | 4,757             | 59,251              | 64,008                    | -  |
| Commercial business <sup>(1)</sup>              | 909                    | -                      | 684                     | 1,593             | 68,747              | 70,340                    | -  |
| Home equity <sup>(2)</sup>                      | 517                    | 333                    | 485                     | 1,335             | 29,902              | 31,237                    | -  |
| Consumer  | -                      | -                      | -                       | -                 | 2,365               | 2,365                     | -  |
| <b>Sub-total:</b>                               | <b>\$ 22,089</b>       | <b>\$ 4,561</b>        | <b>\$ 9,213</b>         | <b>\$ 35,863</b>  | <b>\$ 1,232,080</b> | <b>\$ 1,267,943</b>       | <b>\$ 578</b>                                |
| <b>Acquired loans recorded at fair value:</b>   |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ 3,340               | \$ 311                 | \$ 3,512                | \$ 7,163          | \$ 60,424           | \$ 67,587                 | \$ -   |
| Commercial and multi-family                     | 1,913                  | 1,313                  | 1,285                   | 4,511             | 74,797              | 79,308                    | -  |
| Construction                                    | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| Commercial business <sup>(1)</sup>              | 418                    | -                      | -                       | 418               | 3,863               | 4,281                     | -  |
| Home equity <sup>(2)</sup>                      | 727                    | -                      | 331                     | 1,058             | 17,793              | 18,851                    | -  |
| Consumer  | 12                     | -                      | -                       | 12                | 251                 | 263                       | -  |
| <b>Sub-total:</b>                               | <b>\$ 6,410</b>        | <b>\$ 1,624</b>        | <b>\$ 5,128</b>         | <b>\$ 13,162</b>  | <b>\$ 157,128</b>   | <b>\$ 170,290</b>         | <b>\$ -</b>                                  |
| <b>Acquired loans with deteriorated credit:</b> |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ -                   | \$ -                   | \$ -                    | \$ -              | \$ 1,474            | \$ 1,474                  | \$ -   |
| Commercial and multi-family                     | 244                    | -                      | 8                       | 252               | 417                 | 669                       | 8  |
| Construction                                    | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| Commercial business <sup>(1)</sup>              | -                      | -                      | 167                     | 167               | -                   | 167                       | -  |
| Home equity <sup>(2)</sup>                      | -                      | -                      | -                       | -                 | 71                  | 71                        | -  |
| Consumer  | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| <b>Sub-total:</b>                               | <b>\$ 244</b>          | <b>\$ -</b>            | <b>\$ 175</b>           | <b>\$ 419</b>     | <b>\$ 1,962</b>     | <b>\$ 2,381</b>           | <b>\$ 8</b>                                  |
| <b>Total</b>                                    | <b>\$ 28,743</b>       | <b>\$ 6,185</b>        | <b>\$ 14,516</b>        | <b>\$ 49,444</b>  | <b>\$ 1,391,170</b> | <b>\$ 1,440,614</b>       | <b>\$ 586</b>                                |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table sets forth the delinquency status of total loans receivable at December 31, 2014 :

|   | 30-59 Days<br>Past Due | 60-90 Days<br>Past Due | Greater Than<br>90 Days | Total Past<br>Due | Current             | Total Loans<br>Receivable | Loans Receivable<br>>90 Days<br>and Accruing |
|---|------------------------|------------------------|-------------------------|-------------------|---------------------|---------------------------|--|
| (In Thousands)                                  |                        |                        |                         |                   |                     |                           |  |
| <b>Originated loans:</b>                        |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ 1,636               | \$ 1,638               | \$ 231                  | \$ 3,505          | \$ 121,137          | \$ 124,642                | \$ -   |
| Commercial and multi-family                     | 5,919                  | 650                    | 3,712                   | 10,281            | 722,510             | 732,791                   | -  |
| Construction                                    | -                      | -                      | -                       | -                 | 73,497              | 73,497                    | -  |
| Commercial business <sup>(1)</sup>              | 595                    | 748                    | 22                      | 1,365             | 52,879              | 54,244                    | -  |
| Home equity <sup>(2)</sup>                      | 478                    | -                      | 71                      | 549               | 29,626              | 30,175                    | -  |
| Consumer  | 22                     | -                      | -                       | 22                | 2,156               | 2,178                     | -  |
| <b>Sub-total:</b>                               | <b>\$ 8,650</b>        | <b>\$ 3,036</b>        | <b>\$ 4,036</b>         | <b>\$ 15,722</b>  | <b>\$ 1,001,805</b> | <b>\$ 1,017,527</b>       | <b>\$ -</b>                                  |
| <b>Acquired loans recorded at fair value:</b>   |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ 1,710               | \$ 2,458               | \$ 2,072                | \$ 6,240          | \$ 74,811           | \$ 81,051                 | \$ -   |
| Commercial and multi-family                     | 2,589                  | 1,165                  | -                       | 3,754             | 91,437              | 95,191                    | -  |
| Construction                                    | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| Commercial business <sup>(1)</sup>              | 161                    | -                      | -                       | 161               | 6,220               | 6,381                     | -  |
| Home equity <sup>(2)</sup>                      | 836                    | 470                    | 145                     | 1,451             | 21,247              | 22,698                    | -  |
| Consumer  | 14                     | 9                      | -                       | 23                | 629                 | 652                       | -  |
| <b>Sub-total:</b>                               | <b>\$ 5,310</b>        | <b>\$ 4,102</b>        | <b>\$ 2,217</b>         | <b>\$ 11,629</b>  | <b>\$ 194,344</b>   | <b>\$ 205,973</b>         | <b>\$ -</b>                                  |
| <b>Acquired loans with deteriorated credit:</b> |                        |                        |                         |                   |                     |                           |  |
| Residential one-to-four family                  | \$ -                   | \$ -                   | \$ -                    | \$ -              | \$ 1,595            | \$ 1,595                  | \$ -   |
| Commercial and multi-family                     | -                      | -                      | -                       | -                 | 1,130               | 1,130                     | -  |
| Construction                                    | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| Commercial business <sup>(1)</sup>              | -                      | -                      | 369                     | 369               | -                   | 369                       | -  |
| Home equity <sup>(2)</sup>                      | -                      | 82                     | -                       | 82                | -                   | 82                        | -  |
| Consumer  | -                      | -                      | -                       | -                 | -                   | -                         | -  |
| <b>Sub-total:</b>                               | <b>\$ -</b>            | <b>\$ 82</b>           | <b>\$ 369</b>           | <b>\$ 451</b>     | <b>\$ 2,725</b>     | <b>\$ 3,176</b>           | <b>\$ -</b>                                  |
| <b>Total</b>                                    | <b>\$ 13,960</b>       | <b>\$ 7,220</b>        | <b>\$ 6,622</b>         | <b>\$ 27,802</b>  | <b>\$ 1,198,874</b> | <b>\$ 1,226,676</b>       | <b>\$ -</b>                                  |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of December 31, 2015. (In Thousands):

|   | Pass                | Special Mention  | Substandard      | Doubtful    | Loss        | Total               |
|---|---------------------|------------------|------------------|-------------|-------------|---------------------|
| <b>Originated loans:</b>                        |                     |                  |                  |             |             |                     |
| Residential one-to-four family                  | \$ 108,259          | \$ 4,857         | \$ 4,049         | \$ -        | \$ -        | \$ 117,165          |
| Commercial and multi-family                     | 966,229             | 1,868            | 14,731           | -           | -           | 982,828             |
| Construction                                    | 63,292              | 716              | -                | -           | -           | 64,008              |
| Commercial business <sup>(1)</sup>              | 64,645              | 2,018            | 3,677            | -           | -           | 70,340              |
| Home equity <sup>(2)</sup>                      | 29,694              | 714              | 829              | -           | -           | 31,237              |
| Consumer  | 1,198               | 30               | 1,137            | -           | -           | 2,365               |
| <b>Sub-total:</b>                               | <b>\$ 1,233,317</b> | <b>\$ 10,203</b> | <b>\$ 24,423</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 1,267,943</b> |
| <b>Acquired loans recorded at fair value:</b>   |                     |                  |                  |             |             |                     |
| Residential one-to-four family                  | \$ 58,362           | \$ 2,574         | \$ 6,651         | \$ -        | \$ -        | \$ 67,587           |
| Commercial and multi-family                     | 72,770              | 1,780            | 4,758            | -           | -           | 79,308              |
| Construction                                    | -                   | -                | -                | -           | -           | -                   |
| Commercial business <sup>(1)</sup>              | 4,281               | -                | -                | -           | -           | 4,281               |
| Home equity <sup>(2)</sup>                      | 17,571              | 382              | 898              | -           | -           | 18,851              |
| Consumer  | 263                 | -                | -                | -           | -           | 263                 |
| <b>Sub-total:</b>                               | <b>\$ 153,247</b>   | <b>\$ 4,736</b>  | <b>\$ 12,307</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 170,290</b>   |
| <b>Acquired loans with deteriorated credit:</b> |                     |                  |                  |             |             |                     |
| Residential one-to-four family                  | \$ 147              | \$ 279           | \$ 1,048         | \$ -        | \$ -        | \$ 1,474            |
| Commercial and multi-family                     | 137                 | 532              | -                | -           | -           | 669                 |
| Construction                                    | -                   | -                | -                | -           | -           | -                   |
| Commercial business <sup>(1)</sup>              | -                   | -                | 167              | -           | -           | 167                 |
| Home equity <sup>(2)</sup>                      | -                   | -                | 71               | -           | -           | 71                  |
| Consumer  | -                   | -                | -                | -           | -           | -                   |
| <b>Sub-total:</b>                               | <b>\$ 284</b>       | <b>\$ 811</b>    | <b>\$ 1,286</b>  | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 2,381</b>     |
| <b>Total Gross Loans</b>                        | <b>\$ 1,386,848</b> | <b>\$ 15,750</b> | <b>\$ 38,016</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 1,440,614</b> |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5 - Loans Receivable and Allowance for Loan Losses (Continued)**

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of December 31, 2014. (In Thousands):

|  | Pass         | Special Mention | Substandard | Doubtful | Loss | Total        |
|--|--------------|-----------------|-------------|----------|------|--------------|
| Originated loans:                        |              |                 |             |          |      |              |
| Residential one-to-four family           | \$ 113,847   | \$ 6,921        | \$ 3,874    | \$ -     | \$ - | \$ 124,642   |
| Commercial and multi-family              | 721,075      | 2,322           | 9,394       | -        | -    | 732,791      |
| Construction                             | 73,332       | 165             | -           | -        | -    | 73,497       |
| Commercial business <sup>(1)</sup>       | 47,866       | 2,020           | 4,358       | -        | -    | 54,244       |
| Home equity <sup>(2)</sup>               | 29,178       | 863             | 134         | -        | -    | 30,175       |
| Consumer                                 | 267          | 1,911           | -           | -        | -    | 2,178        |
| Sub-total:                               | \$ 985,565   | \$ 14,202       | \$ 17,760   | \$ -     | \$ - | \$ 1,017,527 |
| Acquired loans recorded at fair value:   |              |                 |             |          |      |              |
| Residential one-to-four family           | \$ 72,502    | \$ 3,069        | \$ 5,480    | \$ -     | \$ - | \$ 81,051    |
| Commercial and multi-family              | 90,090       | 2,253           | 2,848       | -        | -    | 95,191       |
| Construction                             | -            | -               | -           | -        | -    | -            |
| Commercial business <sup>(1)</sup>       | 6,381        | -               | -           | -        | -    | 6,381        |
| Home equity <sup>(2)</sup>               | 21,506       | 133             | 1,059       | -        | -    | 22,698       |
| Consumer                                 | 652          | -               | -           | -        | -    | 652          |
| Sub-total:                               | \$ 191,131   | \$ 5,455        | \$ 9,387    | \$ -     | \$ - | \$ 205,973   |
| Acquired loans with deteriorated credit: |              |                 |             |          |      |              |
| Residential one-to-four family           | \$ 238       | \$ 286          | \$ 1,071    | \$ -     | \$ - | \$ 1,595     |
| Commercial and multi-family              | 589          | 541             | -           | -        | -    | 1,130        |
| Construction                             | -            | -               | -           | -        | -    | -            |
| Commercial business <sup>(1)</sup>       | -            | -               | 369         | -        | -    | 369          |
| Home equity <sup>(2)</sup>               | -            | -               | 82          | -        | -    | 82           |
| Consumer                                 | -            | -               | -           | -        | -    | -            |
| Sub-total:                               | \$ 827       | \$ 827          | \$ 1,522    | \$ -     | \$ - | \$ 3,176     |
| Total Gross Loans                        | \$ 1,177,523 | \$ 20,484       | \$ 28,669   | \$ -     | \$ - | \$ 1,226,676 |

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 6 - Premises and Equipment**

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2015             | 2014             |
| (In Thousands)                            |                  |                  |
| Land                                      | \$ 1,887         | \$ 1,887         |
| Buildings and improvements                | 12,392           | 11,768           |
| Leasehold improvements                    | 3,196            | 1,811            |
| Furniture, fixtures and equipment         | 8,277            | 6,705            |
|   | 25,752           | 22,171           |
| Accumulated depreciation and amortization | (10,025)         | (7,876)          |
|   | <u>\$ 15,727</u> | <u>\$ 14,295</u> |

Depreciation and amortization expense for the years ended December 31, 2015, 2014 and 2013 was \$2,149,000, \$1,512,000 and \$1,366,000, respectively. Buildings and improvements include a building constructed on property leased from a related party (see Note 3).

Rental expenses, included in occupancy expense of premises, related to the occupancy of premises and related shared costs for common areas totaled \$1,990,000, \$1,568,000, and \$1,252,000 for the years ended December 31, 2015, 2014, and 2013, respectively. The minimum obligation under non-cancelable lease agreements expiring through April 30, 2031, for each of the years ended December 31 is as follows (In Thousands):

|            |                  |
|------------|------------------|
| 2016       | \$ 2,155         |
| 2017       | 1,897            |
| 2018       | 1,418            |
| 2019       | 1,256            |
| 2020       | 1,153            |
| Thereafter | 4,743            |
|            | <u>\$ 12,622</u> |

**Note 7 - Interest Receivable**

|                | December 31,    |                 |
|----------------|-----------------|-----------------|
|                | 2015            | 2014            |
| (In Thousands) |                 |                 |
| Loans          | \$ 5,564        | \$ 4,427        |
| Securities     | 31              | 27              |
|                | <u>\$ 5,595</u> | <u>\$ 4,454</u> |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 8 – Deposits**

|                         | December 31,        |                     |
|-------------------------|---------------------|---------------------|
|                         | 2015                | 2014                |
|                         | (In Thousands)      |                     |
| Demand:                 |                     |                     |
| Non-interest bearing    | \$ 130,920          | \$ 127,308          |
| NOW                     | 226,137             | 155,044             |
| Money market            | 54,915              | 49,709              |
|                         | <u>411,972</u>      | <u>332,061</u>      |
| Savings and club        | 250,936             | 283,872             |
| Certificates of deposit | 611,021             | 412,623             |
|                         | <u>\$ 1,273,929</u> | <u>\$ 1,028,556</u> |

At December 31, 2015 and 2014, certificates of deposit of \$ 250,000 or more totaled approximately \$ 144.3 million and \$ 94.3 million, respectively.

At December 31, 2015, deposits from officers, directors and their associates totaled approximately \$20.1 million.

The scheduled maturities of certificates of deposit at December 31, 2015, were as follows (In thousands):

|            | <u>Amount</u>     |
|------------|-------------------|
| 2016       | \$ 411,657        |
| 2017       | 107,634           |
| 2018       | 44,832            |
| 2019       | 31,284            |
| 2020       | 15,614            |
| Thereafter | 0                 |
|            | <u>\$ 611,021</u> |



**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 9 - Short-Term Borrowings and Long-Term Debt**

Information regarding short-term borrowings is as follows:

|   | December 31,    |               |               |
|---|-----------------|---------------|---------------|
|   | 2015            | 2014          | 2013          |
|   | <u>Amount</u>   | <u>Amount</u> | <u>Amount</u> |
|   | ( In Thousands) |               |               |
| Balance at end of period                    | \$ -            | \$ 26,000     | \$ 18,000     |
| Average balance outstanding during the year | \$ 595          | \$ 13,591     | \$ 133        |
| Highest month-end balance during the year   | \$ 3,000        | \$ 45,500     | \$ 25,800     |
| Average interest rate during the year       | 0.37 %          | 0.38 %        | 0.37 %        |
| Weighted average interest rate at year-end  | -%              | 0.32 %        | 0.40 %        |

Long-term debt consists of the following :

|   | December 31,             |                 |                          |                 |
|---|--------------------------|-----------------|--------------------------|-----------------|
|   | 2015                     |                 | 2014                     |                 |
|   | Weighted<br>Average Rate | Amount (\$000s) | Weighted<br>Average Rate | Amount (\$000s) |
| <b>Federal Home Loan Bank Advances:</b> |                          |                 |                          |                 |
| <u>Maturing by December 31,</u>         |                          |                 |                          |                 |
| 2016                                    | 4.34 %                   | \$ 55,000       | 4.34 %                   | \$ 55,000       |
| 2017                                    | 4.45                     | 55,000          | 4.45                     | 55,000          |
| 2018                                    | 1.41                     | 25,000          |                          |                 |
| 2019                                    | 1.85                     | 23,000          | 1.85                     | 23,000          |
| 2020                                    | 1.53                     | 10,000          |                          |                 |
| 2021                                    | 1.76                     | 10,000          |                          |                 |
| 2022                                    | 1.98                     | 22,000          |                          |                 |
|   | 3.19 %                   | \$ 200,000      | 3.90 %                   | \$ 133,000      |

At December 31, 2015 and 2014 loans with carrying values of approximately \$256.0 million and \$228.4 million, respectively, were pledged to secure the above noted Federal Home Loan Bank of New York borrowings. No securities were pledged at December 31, 2015 and 2014 .

At December 31, 2015 , the Bank's total credit exposure cannot exceed 50% of its total assets, or \$ 809,202,616 , based on the borrowing limitations outlined in the FHLB of New York's member products guide. The total credit exposure limit of 50% of total assets is recalculated each quarter.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 10 – Subordinated Debentures (In Thousands):**

The following table summarizes the mandatory redeemable trust preferred securities of the Company's Statutory Trust I at December 31, 2015.

| <u>Issuance Date</u> | <u>Securities Issued</u> | <u>Liquidation Value</u>     | <u>Coupon Rate</u>                        | <u>Maturity</u> | <u>Redeemable by Issuer Beginning</u> |
|----------------------|--------------------------|------------------------------|---|-----------------|---------------------------------------|
| 6/17/2004            | \$4,124,000              | \$1,000 per Capital Security | Floating 3-month LIBOR + 265 Basis Points | 6/17/2034       | 6/17/2009                             |

The Trust Preferred floating rate junior subordinated debenture interest rate adjusts quarterly. The rate paid as of December 31, 2015 and 2014, respectively, was 3.176% and 2.893%.

The trust preferred debenture became callable, at the Company's option, on June 17, 2009, and quarterly thereafter.

**Note 11 - Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under 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.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and 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. Among other things, the new rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigned 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 final rule also requires unrealized gains and losses on certain available-for-sale securities holdings and defined benefit plan obligations to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The Bank exercised the opt-out election. The rule limits a banking organization's 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 for the Bank and the Company on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. The Bank and the Company currently comply with the minimum capital requirements set forth in the final rule. The Company's capital adequacy guidelines are not materially different than the capital adequacy guidelines for the Bank.

Quantitative measures, established by regulation to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations), to risk-weighted assets, (as defined), Tier 1 capital to average assets (as defined) and Common Equity Tier 1 to risk-weighted assets. The following table presents information as to the Bank's capital levels.

|  | <u>Actual</u> |              | <u>For Capital Adequacy Purposes</u> |              | <u>To be Well Capitalized under Prompt Corrective Action Provisions</u> |              |
|--|---------------|--------------|--------------------------------------|--------------|---|--------------|
|  | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u>                        | <u>Ratio</u> | <u>Amount</u>   | <u>Ratio</u> |
| <b>(Dollars in Thousands)</b>                  |               |              |                                      |              |   |              |
| <b>As of December 31, 2015</b>                 |               |              |                                      |              |   |              |
| Total capital (to risk-weighted assets)        | \$153,806     | 12.06 %      | ≥\$102,011                           | ≥8.00%       | ≥\$127,514  | ≥10.00%      |
| Tier 1 capital (to risk-weighted assets)       | 137,841       | 10.81        | ≥76,508                              | ≥6.00        | ≥102,011  | ≥8.00        |
| Common Equity Tier 1 (to risk-weighted assets) | 137,841       | 10.81        | ≥57,381                              | ≥4.50        | ≥82,884   | ≥6.50        |
| Tier 1 capital (to average assets)             | 137,841       | 8.61         | ≥64,048                              | ≥4.00        | 80,060  | ≥5.00        |
| <b>As of December 31, 2014</b>                 |               |              |                                      |              |   |              |
| Total capital (to risk-weighted assets)        | \$117,829     | 11.73 %      | ≥\$80,363                            | ≥8.00%       | ≥\$100,454  | ≥10.00%      |
| Tier 1 capital (to risk-weighted assets)       | 105,227       | 10.48        | ≥40,182                              | ≥4.00        | ≥60,272   | ≥6.00        |
| Tier 1 capital (to average assets)             | 105,227       | 8.33         | ≥50,508                              | ≥4.00        | ≥63,135   | ≥5.00        |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

As of December 31, 2015 and 2014, the most recent notification from the Bank's regulators categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events occurring since that notification that management believes have changed the Bank's category.

**Note 12 - Benefits Plans****Pension Plan**

The Company acquired, through the merger with Pamrapo Bancorp, Inc. a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan ("Pension Plan"), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the Pension Plan to the freeze date have been retained. The benefits are based on years of service and employee's compensation. The Pension Plan is funded in conformity with funding requirements of applicable government regulations. Prior service costs for the Pension Plan generally are amortized over the estimated remaining service periods of employees.

The following tables set forth the Pension Plan's funded status at December 31, 2015 and 2014 and components of net periodic pension cost for the years ended December 31, 2015 and 2014:

**Change in Benefit Obligation:**

|                                       | December 31,    |                 |
|---------------------------------------|-----------------|-----------------|
|                                       | 2015            | 2014            |
|                                       | (In Thousands)  |                 |
| Benefit obligation, beginning of year | \$ 9,194        | \$ 8,311        |
| Interest Cost                         | 352             | 400             |
| Actuarial loss (gain)                 | (131)           | 1,109           |
| Benefits paid                         | (562)           | (479)           |
| Lump Sum Distributions                | (1,042)         | (147)           |
| <b>Benefit obligation, ending</b>     | <b>\$ 7,811</b> | <b>\$ 9,194</b> |

**Change in Plan Assets:**

|  |                 |                 |
|--|-----------------|-----------------|
| <b>Fair value of assets, beginning of year</b> | <b>\$ 7,679</b> | <b>\$ 7,812</b> |
| Actual return on plan assets                   | (306)           | 193             |
| Employer contributions                         | 800             | 300             |
| Benefits paid                                  | (562)           | (479)           |
| Lump Sum Distributions                         | (1,042)         | (147)           |
| <b>Fair value of assets, ending</b>            | <b>\$ 6,569</b> | <b>\$ 7,679</b> |

**Reconciliation of Funded Status:**

|   |                 |                 |
|---|-----------------|-----------------|
| <b>Accumulated benefit obligation</b>                 | <b>\$ 7,811</b> | <b>\$ 9,194</b> |
| Projected benefit obligation                          | 7,811           | 9,194           |
| Fair value of assets                                  | 6,569           | 7,679           |
| <b>Unfunded status, included in other liabilities</b> | <b>\$ 1,242</b> | <b>\$ 1,515</b> |

**Valuation assumptions used to determine benefit obligation at period end:**

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

|                      |       |       |
|----------------------|-------|-------|
| Discount rate        | 4.34% | 3.95% |
| Salary Increase Rate | N/A   | N/A   |

**Note 12 - Benefits Plans (Continued)****Net Periodic Pension Expense:**

|                                    | December 31,   |                 |
|------------------------------------|----------------|-----------------|
|                                    | 2015           | 2014            |
|                                    | (In Thousands) |                 |
| Interest cost                      | \$ 352         | \$ 400          |
| Expected return on assets          | (619)          | (616)           |
| Amortization of net loss           | 100            | -               |
| Settlement loss                    | 351            | -               |
| <b>Net Periodic Pension Credit</b> | <b>\$ 184</b>  | <b>\$ (216)</b> |

**Valuation assumptions used to determine net periodic benefit cost for the year:**

|   |       |       |
|---|-------|-------|
| Discount rate                           | 3.95% | 4.95% |
| Long term rate of return on plan assets | 8.00% | 8.00% |
| Salary Increase Rate                    | N/A   | N/A   |

At December 31, 2015 and December 31, 2014, unrecognized net loss of \$(2,632,000) and \$(2,289,000), respectively, was included, net of deferred income tax, in accumulated other comprehensive loss in accordance with ASC 715-20 and ASC 715-30. None of the unrecognized net loss is expected to be recognized in net periodic pension expense for the year ended December 31, 2016.

***BCB Bancorp, Inc. and Subsidiaries***

**Notes to Consolidated Financial Statements**

**Note 12 - Benefits Plan (Continued)**

**Plan Assets**

**Investment Policies and Strategies**

The primary long-term objective for the Plan is to maintain assets at a level that will sufficiently cover future beneficiary obligations. The Plan will be structured to include a volatility reducing component (the fixed income commitment) and a growth component (the equity commitment).

To achieve the Bank's long-term investment objectives, the Trustee will invest the assets of the Plan in a diversified combination of asset classes, investment strategies, and pooled vehicles. The asset allocation guidelines in the table below reflect the Bank's risk tolerance and long-term objectives for the Plan. These parameters will be reviewed on a regular basis and subject to change following discussions between the Bank and the Trustee.

Initially, the following asset allocation targets and ranges will guide the Trustee in structuring the overall allocation in the Plan's investment portfolio. The Bank or the Trustee may amend these allocations to reflect the most appropriate standards consistent with changing circumstances. Any such fundamental amendments in strategy will be discussed between the Bank and the Trustee prior to implementation.

Based on the above considerations, the following asset allocation ranges will be implemented:

| <b>Asset Allocation Parameters by Asset Class</b> |                |               |                |
|---|----------------|---------------|----------------|
|   | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> |
| <b>Equity</b>                                     |                |               |                |
| Large-Cap U.S.                                    |                | 45%           |                |
| Mid/Small-Cap U.S.                                |                | 13%           |                |
| Non-U.S.  |                | 0%            |                |
| <b>Total-Equity</b>                               | <b>40%</b>     | <b>58%</b>    | <b>60%</b>     |
| <b>Fixed Income</b>                               |                |               |                |
| Long/Short Duration                               |                | 41%           |                |
| Money Market/Certificates of Deposit              |                | 1%            |                |
| <b>Total-Fixed Income</b>                         | <b>40%</b>     | <b>42%</b>    | <b>60%</b>     |

The parameters for each asset class provide the Trustee with the latitude for managing the Plan within a minimum and maximum range. The Trustee will have full discretion to buy, sell, invest and reinvest in these asset segments based on these guidelines which includes allowing the underlying investments to fluctuate within the stated policy ranges. The Plan will maintain a cash equivalents component (not to exceed 3% under normal circumstances) within the fixed income allocation for liquidity purposes.

The Trustee will monitor the actual asset segment exposures of the Plan on a regular basis and, periodically, may adjust the asset allocation within the ranges set forth above as it deems appropriate. Periodic reallocations of assets will be based on the Trustee's perception of the changing risk/return opportunities of the respective asset classes.

**Determination of Long-Term Rate-of Return**

The long-term rate-of-return-on assets assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the Plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 5-9% and 2-6% , respectively. The long-term inflation rate was estimated to be 3% . When these overall return expectations are applied to the Plan's target allocation, the result is an expected rate of return of 7% to 11% .

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 12 - Benefits Plan (Continued)**

The fair values of the Company's pension plan assets at December 31, 2015, by asset category (see Note 17 for the definitions of levels), are as follows:

| Asset Category                                | Total               | (Level 1)           | (Level 2)   | (Level 3)   |
|---|---------------------|---------------------|-------------|-------------|
| <b>Mutual funds-Equity</b>                    |                     |                     |             |             |
| Large-Cap Value (a)                           | \$ 1,736,329        | \$ 1,736,329        | \$ -        | \$ -        |
| Mid-Cap Value (b)                             | 289,475             | 289,475             | -           | -           |
| Small-Cap Value (c)                           | -                   | -                   | -           | -           |
| Foreign Large Growth (d)                      | -                   | -                   | -           | -           |
| Large Blend (j)                               | 1,234,649           | 1,234,649           | -           | -           |
| <b>Mutual Funds-Fixed Income</b>              |                     |                     |             |             |
| World Bond (e)                                | 891,971             | 891,971             | -           | -           |
| Multi-Sector Bond (f)                         | 910,819             | 910,819             | -           | -           |
| Inflation Protected (g)                       | -                   | 0                   | -           | -           |
| High Yield Bond (k)                           | 897,768             | 897,768             | -           | -           |
| <b>Mutual Funds-Asset Allocation/Balanced</b> |                     |                     |             |             |
| Conservative Allocation (h)                   | -                   | -                   | -           | -           |
| World Allocation (i)                          | -                   | -                   | -           | -           |
| <b>Stock</b>                                  |                     |                     |             |             |
| BCB Common Stock                              | 538,980             | 538,980             | -           | -           |
| <b>Cash Equivalents</b>                       |                     |                     |             |             |
| Money Market                                  | \$ 69,347           | \$ 69,347           | \$ -        | \$ -        |
| <b>Total</b>                                  | <b>\$ 6,569,338</b> | <b>\$ 6,569,338</b> | <b>\$ -</b> | <b>\$ -</b> |

The fair values of the Company's pension plan assets at December 31, 2014, by asset category (see Note 17 for the definitions of levels), are as follows:

| Asset Category                                | Total               | (Level 1)           | (Level 2)   | (Level 3)   |
|---|---------------------|---------------------|-------------|-------------|
| <b>Mutual funds-Equity</b>                    |                     |                     |             |             |
| Large-Cap Value (a)                           | \$ 108,756          | \$ 108,756          | \$ -        | \$ -        |
| Mid-Cap Value (b)                             | 70,182              | 70,182              | -           | -           |
| Small-Cap Value (c)                           | 46,774              | 46,774              | -           | -           |
| Foreign Large Growth (d)                      | 47,851              | 47,851              | -           | -           |
| <b>Mutual Funds-Fixed Income</b>              |                     |                     |             |             |
| World Bond (e)                                | 37,476              | 37,476              | -           | -           |
| Multi-Sector Bond (f)                         | 47,412              | 47,412              | -           | -           |
| Inflation Protected (g)                       | 7,904               | 7,904               | -           | -           |
| <b>Mutual Funds-Asset Allocation/Balanced</b> |                     |                     |             |             |
| Conservative Allocation (h)                   | 3,126               | 3,126               | -           | -           |
| World Allocation (i)                          | 62,423              | 62,423              | -           | -           |
| <b>Stock</b>                                  |                     |                     |             |             |
| BCB Common Stock                              | 607,902             | 607,902             | -           | -           |
| <b>Cash Equivalents</b>                       |                     |                     |             |             |
| Money Market                                  | \$ 6,639,194        | \$ 6,639,194        | \$ -        | \$ -        |
| <b>Total</b>                                  | <b>\$ 7,679,000</b> | <b>\$ 7,679,000</b> | <b>\$ -</b> | <b>\$ -</b> |

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

#### **Note 12 - Benefits Plan (Continued)**

- a) Large-value portfolios invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
- b) Some mid-cap value portfolios focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
- c) Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
- d) Foreign large-growth portfolios focus on high-priced growth stocks, mainly outside of the United States. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These portfolios typically will have less than 20% of assets invested in U.S. stocks.
- e) World-bond portfolios invest 40% or more of their assets in foreign bonds. Some world-bond portfolios follow a conservative approach, favoring high-quality bonds from developed markets. Others are more adventurous and own some lower-quality bonds from developed or emerging markets. Some portfolios invest exclusively outside the U.S., while others regularly invest in both U.S. and non-U.S. bonds.
- f) Multi Sector portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, foreign bonds, and high-yield domestic debt securities.
- g) Inflation-protected bond portfolios invest primarily in debt securities that adjust their principal values in line with the rate of inflation. These bonds can be issued by any organization, but the U.S. Treasury is currently the largest issuer for these types of securities.
- h) Conservative-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold smaller positions in stocks than moderate-allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash.
- i) World-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.
- j) This fund invests in 500 of the largest U.S. companies, which span many different industries and account for about three-fourths of the U.S. Stock Markets value.
- k) High Yield Bond funds invest at least 65% of assets in bonds rated below BBB. This fund seeks to provide shareholders with a high level of current income with capital growth as a secondary objective.

The Company expects to contribute, based upon actuarial estimates, approximately \$500,000 to the pension plan in 2016.

Benefit payments are expected to be paid for the years ended December 31 as follows (In thousands):

|           |              |
|-----------|--------------|
| 2016      | <b>\$547</b> |
| 2017      | <b>542</b>   |
| 2018      | <b>551</b>   |
| 2019      | <b>540</b>   |
| 2020      | <b>528</b>   |
| 2021-2025 | <b>2,502</b> |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 12 - Benefits Plan (Continued)**

## Supplemental Executive Retirement Plan

The Company acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan ("SERP") in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the "Normal Retirement Age"), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

The following tables set forth the SERP's funded status and components of net periodic SERP cost:

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2015          | 2014          |
| (In Thousands)                               |               |               |
| <b>Benefit obligation, beginning of year</b> | \$ 384        | \$ 417        |
| Interest Cost                                | 14            | 19            |
| Actuarial loss (gain)                        | (4)           | 10            |
| Benefits paid                                | (62)          | (62)          |
| <b>Benefit obligation, ending</b>            | <b>\$ 332</b> | <b>\$ 384</b> |

**Change in Plan Assets:**

|  |             |             |
|--|-------------|-------------|
| <b>Fair value of assets, beginning of year</b> | \$ -        | \$ -        |
| Employer contributions                         | 62          | 62          |
| Benefits paid                                  | (62)        | (62)        |
| <b>Fair value of assets, ending</b>            | <b>\$ -</b> | <b>\$ -</b> |

**Reconciliation of Funded Status:**

|   |               |               |
|---|---------------|---------------|
| Accumulated benefit obligation                      | \$ 332        | \$ 384        |
| Projected benefit obligation                        | \$ 332        | \$ 384        |
| Fair value of assets                                | -             | -             |
| <b>Funded status, included in other liabilities</b> | <b>\$ 332</b> | <b>\$ 384</b> |

**Valuation assumptions used to determine benefit obligation at period end:**

|                      |       |       |
|----------------------|-------|-------|
| Discount rate        | 4.34% | 3.95% |
| Salary Increase Rate | N/A   | N/A   |



**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 12 - Benefits Plan (Continued)**

| Net Periodic SERP Expense: | December 31, |      |
|----------------------------|--------------|------|
|                            | 2015         | 2014 |

(In Thousands)

|               |       |       |
|---------------|-------|-------|
| Interest Cost | \$ 14 | \$ 19 |
|---------------|-------|-------|

|                               |              |              |
|-------------------------------|--------------|--------------|
| <b>Net Periodic SERP Cost</b> | <b>\$ 14</b> | <b>\$ 19</b> |
|-------------------------------|--------------|--------------|

**Valuation assumptions used to determine net periodic benefit cost for the year:**

|                                  |        |        |
|----------------------------------|--------|--------|
| Discount rate                    | 3.95 % | 4.95 % |
| Rate of increase in compensation | N/A    | N/A    |

At December 31, 2015 and December 31, 2014, unrecognized net loss of \$ 37,000 and \$ 42,000 , respectively, was included, net of deferred income tax, in accumulated other comprehensive income in accordance with ASC 715-20 and ASC 715-30. None of the unrecognized net loss is expected to be recognized in net periodic SERP cost for the year ended December 31, 2016 .

The Company expects to contribute, based upon actuarial estimates, approximately \$ 62,000 to the SERP plan in 2016 .

Benefit payments are expected to be paid for the years ended December 31 as follows (In thousands):

|           |      |
|-----------|------|
| 2016      | \$62 |
| 2017      | 62   |
| 2018      | 62   |
| 2019      | 62   |
| 2020      | 32   |
| 2021-2025 | 95   |

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 12 - Benefits Plan (Continued)**

**Stock Options**

The Company, under the plan approved by its shareholders on April 28, 2011 ("2011 Stock Plan"), authorized the issuance of up to 900,000 shares of common stock of the Company pursuant to grants of stock options. Employees and directors of the Company and the Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. On December 2, 2015, a grant of 120,000 options and on March 7, 2014, a grant of 110,000 options was declared for certain members of the Board of Directors which vest at a rate of 10% per year, over ten years commencing on the first anniversary of the grant date. The exercise price was recorded as of the close of business on December 2, 2015 and March 7, 2014, respectively and a Form 4 was filed for each Director who received a grant with the Securities and Exchange Commission consistent with their filing requirements. There were 32,500 and 6,000 stock options granted to employees in the fourth quarters of 2015 and 2014, respectively, which vest at a rate of 20% per year.

A summary of stock option activity, follows:

|   | <u>Number of Options</u> | <u>Range of Exercise Price</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term</u> | <u>Aggregate Intrinsic Value (000's)</u> |
|---|--------------------------|--------------------------------|--|--|--|
| Outstanding at December 31, 2013        | 344,128                  | \$ 8.93-18.41                  | 11.09                                  | 8.71 years   | \$ 458                                   |
| Options forfeited                       | (33,869)                 | 8.93-18.41                     | 11.25                                  |  |  |
| Options exercised                       | (127,539)                | 8.93-11.84                     | 11.54                                  |  | 223                                      |
| Options granted                         | 116,000                  | 12.19-13.32                    | 13.26                                  |  |  |
| Options expired                         | (9,000)                  | 29.25                          | 29.25                                  |  |  |
| <b>Outstanding at December 31, 2014</b> | <b>289,720</b>           | <b>8.93-15.65</b>              | <b>11.18</b>                           | 7.60 years   | 427                                      |
| Options forfeited                       | -                        | -                              | -                                      |  |  |
| Options exercised                       | -                        | -                              | -                                      |  |  |
| Options granted                         | 152,500                  | 10.55-10.81                    | 10.75                                  |  |  |
| Options expired                         | (25,220)                 | 15.60-15.65                    | 15.65                                  |  |  |
| <b>Outstanding at December 31, 2015</b> | <b>417,000</b>           | <b>8.93-15.65</b>              | <b>10.75</b>                           | 8.22 years   | 219                                      |
| <b>Exercisable at December 31, 2015</b> | <b>54,000</b>            | <b>8.93-15.11</b>              | <b>10.07</b>                           | 6.57 years   | 59                                       |

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to the 363,000 shares underlying unexercised options outstanding as of December 31, 2015, is \$901,875 over a weighted average period of 8.02 years.

***BCB Bancorp, Inc. and Subsidiaries***

**Notes to Consolidated Financial Statements**

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**Note 12 - Benefits Plan (Continued)**

The key valuation assumptions and fair value of stock options granted during the three months ended December 31, 2015 were:

|                                | <b>Directors</b> | <b>Employees</b> |
|--------------------------------|------------------|------------------|
| <b>Expected life</b>           | 7.87 years       | 7.88 years       |
| <b>Risk-free interest rate</b> | 2.02 %           | 2.17 %           |
| <b>Volatility</b>              | 38.02 %          | 37.96 %          |
| <b>Dividend yield</b>          | 5.18 %           | 5.31 %           |
| <b>Fair value</b>              | \$2.40           | \$2.32           |

The key valuation assumptions and fair value of stock options granted during the three months ended December 31, 2014 were:

|                                |            |
|--------------------------------|------------|
| <b>Expected life</b>           | 7.75 years |
| <b>Risk-free interest rate</b> | 2.39 %     |
| <b>Volatility</b>              | 38.38 %    |
| <b>Dividend yield</b>          | 4.48 %     |
| <b>Fair value</b>              | \$3.83     |

The key valuation assumptions and fair value of stock options granted during the three months ended March 31, 2014 were:

|                                |            |
|--------------------------------|------------|
| <b>Expected life</b>           | 10.0 years |
| <b>Risk-free interest rate</b> | 2.18 %     |
| <b>Volatility</b>              | 36.60 %    |
| <b>Dividend yield</b>          | 4.59 %     |
| <b>Fair value</b>              | \$2.85     |

***BCB Bancorp, Inc. and Subsidiaries***

**Notes to Consolidated Financial Statements**

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**Note 13 - Dividend Restrictions**

Payment of cash dividends on common stock is conditional on earnings, financial condition, cash needs, capital considerations, the discretion of the Board of Directors, and compliance with regulatory requirements. State and federal law and regulations impose substantial limitations on the Bank's ability to pay dividends to the Company. Under New Jersey law, the Company is permitted to declare dividends on its common stock only if, after payment of the dividend, the capital stock of the Bank will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the Bank's surplus. During 2015, 2014 and 2013, the Bank paid the Company total dividends of \$4,957,000, \$6,402,000, and \$6,476,500, respectively. The Company's ability to declare dividends is dependent upon the amount of dividends paid to the Company by the Bank.

***BCB Bancorp, Inc. and Subsidiaries***

**Notes to Consolidated Financial Statements**

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**Note 14 - Income Taxes**

The components of income tax (benefit) expense are summarized as follows:

|  | Years Ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2015                     | 2014            | 2013            |
|  | (In Thousands)           |                 |                 |
| Current income tax expense:            |                          |                 |                 |
| Federal                                | \$ 3,730                 | \$ 2,994        | \$ 6,887        |
| State                                  | 1,082                    | 802             | 496             |
|  | <u>4,812</u>             | <u>3,796</u>    | <u>7,383</u>    |
| Deferred income tax expense (benefit): |                          |                 |                 |
| Federal                                | 2                        | 1,070           | (1,653)         |
| State                                  | -                        | 181             | 821             |
|  | <u>2</u>                 | <u>1,251</u>    | <u>(832)</u>    |
| Total Income Tax Expense               | \$ <u>4,814</u>          | \$ <u>5,047</u> | \$ <u>6,551</u> |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 14 - Income Taxes (Continued)**

The tax effects of existing temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are as follows:

|   | <b>December 31,</b>   |                 |
|---|-----------------------|-----------------|
|   | <b>2015</b>           | <b>2014</b>     |
| Deferred income tax assets:                                     | <b>(In Thousands)</b> |                 |
| Allowance for loan losses                                       | \$ 6,444              | \$ 7,004        |
| Other real estate owned expenses                                | 336                   | 295             |
| Non-accrual interest  | 285                   | 274             |
| Benefit Plans   | 826                   | 776             |
| Benefit Plan-accumulated other comprehensive loss               | 1,090                 | 952             |
| Valuation adjustment on loans receivable acquired               | 1,124                 | 1,037           |
| Valuation adjustment on time deposits acquired                  | 43                    | 25              |
| Unrealized loss on securities available for sale                | 14                    | -               |
| Net operating loss carry forwards (net of valuation allowances) | 109                   | 188             |
| Other   | 1,189                 | 924             |
|   | <b>11,460</b>         | <b>11,475</b>   |
| Deferred income tax liabilities:                                |                       |                 |
| Valuation adjustment on premises and equipment acquired         | 1,367                 | 1,302           |
| Unrealized gain on securities available for sale                | -                     | 28              |
| Depreciation  | 132                   | 91              |
| SBA Servicing Asset   | 80                    | 351             |
|   | <b>1,579</b>          | <b>1,772</b>    |
| <b>Net Deferred Tax Asset</b>                                   | <b>\$ 9,881</b>       | <b>\$ 9,703</b> |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making this assessment, management has considered the profitability of current core operations, future market growth, forecasted earnings, future taxable income, and ongoing, feasible and permissible tax planning strategies. If the Company was to determine that it would not be able to realize a portion of its net deferred tax asset in the future for which there is currently no valuation allowance, an adjustment to the net deferred tax asset would be charged to earnings in the period such determination was made. Conversely, if the Company was to make a determination that it is more likely than not that the deferred tax assets for which there is a valuation allowance would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and carry forwards are available.

At December 31, 2015, gross deferred tax assets related to net operating loss carry forwards totaled \$162,000, consisting of \$109,000 federal assets acquired in a 2011 acquisition, and \$53,000 in state assets related to the stand-alone Company. Comparable amounts at December 31, 2014, were gross deferred tax assets of \$297,000 consisting of \$188,000 of federal assets acquired in the Allegiance acquisition, and \$109,000 in state assets related to the stand-alone Company.

At December 31, 2015 and 2014, the stand-alone Company had \$2,172,000 and \$1,862,000, respectively, of state net operating loss carry forwards, with related gross deferred tax assets of \$195,000 and \$109,000, respectively. Due to the uncertainty regarding the ability to realize these carry forwards within the statutory time limits, the related deferred tax asset has been fully offset by valuation allowances of \$195,000 and \$109,000, respectively, at December 31, 2015 and 2014.

In conjunction with the Company's acquisition of Allegiance in 2011, the Company acquired a federal net operating loss carry forward of \$1.2 million. This carry forward is available for use through 2030; however, in accordance with Internal Revenue Code Section 382, usage of the carry forward is limited to \$235,000 annually on a cumulative basis (portions of the \$235,000 not used in a particular year may be added to subsequent usage). At December 31, 2015 and 2014, the Company had approximately \$66,000 and \$287,000 remaining of this federal net operating loss carry forward available to offset future taxable income for federal tax reporting purposes; Based on the current profitability of core operations and expectations that such profitability will continue, the Company's expects to fully utilize this federal net operating loss carry forward by 2016.

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 14 - Income Taxes (Continued)**

The following table presents a reconciliation between the reported income tax expense and the income tax expense which would be computed by applying the normal federal income tax rate of between 34 and 35% in 2015, 2014, and 2013 to income before income tax expense:

|  | Years Ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2015                     | 2014            | 2013            |
|  | (In Thousands)           |                 |                 |
| Federal income tax expense at statutory rate       | \$ 4,101                 | \$ 4,389        | \$ 5,588        |
| Increases in income taxes resulting from:          |                          |                 |                 |
| State income tax, net of federal income tax effect | 707                      | 641             | 856             |
| Other items, net                                   | 6                        | 17              | 107             |
| <b>Effective Income Tax Expense</b>                | <b>\$ 4,814</b>          | <b>\$ 5,047</b> | <b>\$ 6,551</b> |
| <b>Effective Income Tax Rate</b>                   | <b>40.7 %</b>            | <b>39.9 %</b>   | <b>41.0 %</b>   |

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

#### **Note 15 - Commitments and Contingencies**

The Bank 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 primarily include commitments to extend credit. The Bank'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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Outstanding loan related commitments were as follows:

|                               | <b>December 31,</b>   |             |
|-------------------------------|-----------------------|-------------|
|                               | <b>2015</b>           | <b>2014</b> |
|                               | <b>(In Thousands)</b> |             |
| Loan origination              | <b>\$ 44,816</b>      | \$ 106,614  |
| Standby letters of credit     | <b>1,739</b>          | 1,767       |
| Construction loans in process | <b>39,714</b>         | 47,678      |
| Unused lines of credit        | <b>64,701</b>         | 61,183      |
|                               | <b>\$ 150,970</b>     | \$ 217,242  |

Commitments to extend credit are 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. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but primarily includes residential real estate properties.

The Company and its subsidiaries also have, in the normal course of business, commitments for services and supplies. Management does not anticipate losses on any of these transactions.

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. Other than as set forth below, as of December 31, 2015, we were not involved in any material legal proceedings the outcome of which, if determined in a manner adverse to the Company, would have a material adverse effect on our financial condition or results of operations.

The Company, as the successor to Pamrapo Bancorp, Inc., and in its own corporate capacity, is a named defendant in a shareholder class action lawsuit, *Kube v. Pamrapo Bancorp, Inc., et al.*, filed in the Superior Court of New Jersey, Hudson County, Chancery Division, General Equity (the "Action"). On May 9, 2012, the Company and the other defendants obtained partial summary judgment, dismissing three of the five Counts of the plaintiff's Complaint. On May 9, 2012, plaintiff's counsel was awarded interim legal fees of approximately \$350,000. This award of interim legal fees to plaintiff's counsel was satisfied in October 2015.

On September 21, 2015, the court entered an *Order and Final Judgment ("Judgment")*. Pursuant to the Judgment, the Stipulation of Settlement ("Stipulation") agreed to by the plaintiff class, the Company and the remaining defendants was approved. In consideration for the full settlement and release of all Released Claims (as that term is defined in the Stipulation) and the dismissal of the Action with prejudice as against the Company and the remaining defendants, the Company, on its own behalf and on behalf of the remaining defendants, would pay \$1,950,000.00 to the Class. This settlement amount was paid in November 2015.

The Company and the other defendants in the Action ("Plaintiffs") have brought a lawsuit ("Carrier Suit") against Progressive Insurance Company ("Progressive"), the Directors' and Officers' Liability insurance carrier for Pamrapo Bancorp, Inc., at the time of its merger with the Company on July 6, 2010, and Colonial American Insurance Company ("Colonial"), the Directors' and Officers' Liability insurance carrier for the Company at the time of the merger. The Carrier Suit seeks, among other claims, indemnification, payment of and/or contribution toward the above settlement, payment of and/or contribution toward the above award of interim attorney's fees to the plaintiff class's counsel, payment of and/or contribution toward any future award of attorney's fees to the plaintiff class's counsel, and reimbursement of the attorney's fees and defense costs incurred by the Plaintiffs in defending the Action and pursuing the Carrier Suit.

Progressive made a motion to dismiss the Carrier Suit in 2014. The Plaintiffs opposed that motion. That motion was administratively terminated by Order of the court, dated December 3, 2014. By Order of the court, dated December 3, 2014, the Plaintiffs' motion to file an Amended Complaint was granted.

On or about January 6, 2015, Progressive again made a motion to dismiss the Carrier Suit. The Plaintiffs opposed that motion. That motion was denied by oral decision on October 22, 2015, and by written Order, dated January 20, 2016.

A Mediation session ("Mediation") was held on March 11, 2015, among the parties. Following the Mediation, the Plaintiffs and Colonial agreed to settle the Plaintiffs' claims against Colonial for \$1,750,000.00. A *Settlement Agreement and Release*, dated June 30, 2015, was entered into by the Plaintiffs and Colonial. The Plaintiffs received the settlement amount of \$1,750,000.00 from Colonial on July 9, 2015.

The Plaintiffs and Progressive did not settle their respective claims at the Mediation. The Carrier Suit continues with respect to these parties. Initial discovery has been exchanged between the parties. The court has directed that the parties engage in "expedited discovery." The parties will be allowed to make cross-motions for summary judgment upon the conclusion of "expedited discovery." The court has encouraged the parties to pursue another mediation session. The Plaintiffs are vigorously pursuing full recovery.



## BCB Bancorp, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 16 - Fair Value Measurements and Fair Values of Financial Instruments

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 consolidated 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.

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes 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 assets and liabilities measured at fair value on a recurring basis, the fair value measurements, by level, within the fair value hierarchy are as follows:

| Description  | Total    | (Level 1)<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs |
|--|----------|--|---|--|
| <b>As of December 31, 2015:</b>  |          |  |   |  |
| Securities available for sale — Residential mortgage backed securities | \$ 9,623 | \$ -   | \$ 9,623  | \$ -   |
| As of December 31, 2014:   |          |  |   |  |
| Securities available for sale — Residential mortgage backed securities | \$ 9,768 | \$ -   | \$ 9,768  | \$ -   |

For assets and liabilities measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

| Description                     | Total     | (Level 1)<br>Quoted Prices in<br>Active Markets<br>for Identical<br>Assets | (Level 2)<br>Significant<br>Other<br>Observable<br>Inputs | (Level 3)<br>Significant<br>Unobservable<br>Inputs |
|---------------------------------|-----------|--|---|--|
| <b>As of December 31, 2015:</b> |           |  |   |  |
| Impaired loans                  | \$ 15,239 | \$ -   | \$ -  | \$ 15,239  |
| Other real estate owned         | \$ 1,564  | \$ -   | \$ -  | \$ 1,564   |
| As of December 31, 2014:        |           |  |   |  |
| Impaired loans                  | \$ 20,156 | \$ -   | \$ -  | \$ 20,156  |
| Other real estate owned         | \$ 3,485  | \$ -   | \$ -  | \$ 3,485   |

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)**

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value, (Dollars in thousands):

**Quantitative Information about Level 3 Fair Value Measurements**

|                                |    | Fair Value Estimate | Valuation Techniques        | Unobservable Input        | Range  |
|--------------------------------|----|---------------------|-----------------------------|---------------------------|--------|
| <b>December 31, 2015:</b>      |    |                     |                             |                           |        |
| <b>Impaired Loans</b>          | \$ | <b>15,239</b>       | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-10% |
|                                |    |                     |                             | Liquidation expenses (3)  | 0%-10% |
| <b>Other Real Estate Owned</b> | \$ | <b>1,564</b>        | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-10% |
|                                |    |                     |                             | Liquidation expenses (3)  | 0%-10% |

**Quantitative Information about Level 3 Fair Value Measurements**

|                                |    | Fair Value Estimate | Valuation Techniques        | Unobservable Input        | Range  |
|--------------------------------|----|---------------------|-----------------------------|---------------------------|--------|
| <b>December 31, 2014:</b>      |    |                     |                             |                           |        |
| <b>Impaired Loans</b>          | \$ | <b>20,156</b>       | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-10% |
|                                |    |                     |                             | Liquidation expenses (3)  | 0%-10% |
| <b>Other Real Estate Owned</b> | \$ | <b>3,485</b>        | Appraisal of collateral (1) | Appraisal adjustments (2) | 0%-10% |
|                                |    |                     |                             | Liquidation expenses (3)  | 0%-10% |

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

## ***BCB Bancorp, Inc. and Subsidiaries***

### **Notes to Consolidated Financial Statements**

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#### **Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)**

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, 2015 and 2014:

#### **Cash and Cash Equivalents (Carried at Cost)**

The carrying amounts reported in the consolidated statements of financial condition for cash and interest-earning deposits approximate those assets' fair values.

#### **Securities Available for Sale**

The fair value of securities available for sale (carried at fair value) is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

#### **Loans Held for Sale (Carried at Lower of Cost or Fair Value)**

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for specific attributes of that loan. Loans held for sale are carried at their cost.

#### **Loans Receivable (Carried at Cost)**

The fair values of loans, except for certain impaired loans, are estimated using discounted cash flow analyses, using market rates at the date of the Statement of Financial Condition that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

#### **Impaired Loans (Generally Carried at Fair Value)**

Impaired loans are those for which the Company has measured and recorded an 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 included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2015 and 2014 consists of the loan balances of \$ 18,962,000 and \$ 23,027,000 net of a valuation allowance of \$ 3,723,000 and \$ 2,871,000, respectively.

#### **FHLB of New York Stock (Carried at Cost)**

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

#### **Accrued Interest Receivable and Payable (Carried at Cost)**

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

#### **Deposits (Carried at Cost)**

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

#### **Debt Including Subordinated Debentures (Carried at Cost)**

Fair values of debt are estimated using discounted cash flow analysis, based on quoted prices for new long-term debt with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

#### **Off-Balance Sheet Financial Instruments (Disclosed at Cost)**

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and unused lines of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these commitments was deemed immaterial and is not presented in the accompanying table.

**BCB Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)**

The carrying values and estimated fair values of financial instruments were as follows at December 31, 2015 and 2014 :

| As of December 31, 2015         |            |  |   |   |           |
|---------------------------------|------------|--|---|---|-----------|
| Carrying Value                  | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |           |
| (In Thousands)                  |            |  |   |   |           |
| Financial assets:               |            |  |   |   |           |
| Cash and cash equivalents       | \$ 132,635 | \$ 132,635   | \$ 132,635                                    | \$ -                                      | \$ -      |
| Interest-earning time deposits  | 1,238      | 1,238  | 1,238   | -   | -         |
| Securities available for sale   | 9,623      | 9,623  | -   | 9,623                                     | -         |
| Loans held for sale             | 1,983      | 2,004  | -   | 2,004                                     | -         |
| Loans receivable, net           | 1,420,118  | 1,443,739  | -   | -   | 1,443,739 |
| FHLB of New York stock, at cost | 10,711     | 10,711   | -   | 10,711                                    | -         |
| Accrued interest receivable     | 5,595      | 5,595  | -   | 5,595                                     | -         |
| Financial liabilities:          |            |  |   |   |           |
| Deposits                        | 1,273,929  | 1,270,267  | 653,763                                       | 616,504                                   | -         |
| Debt                            | 200,000    | 202,948  | -   | 202,948                                   | -         |
| Subordinated debentures         | 4,124      | 4,185  | -   | 4,185                                     | -         |
| Accrued interest payable        | 1,053      | 1,053  | -   | 1,053                                     | -         |

| As of December 31, 2014         |            |  |   |   |           |
|---------------------------------|------------|--|---|---|-----------|
| Carrying Value                  | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |           |
| (In Thousands)                  |            |  |   |   |           |
| Financial assets:               |            |  |   |   |           |
| Cash and cash equivalents       | \$ 32,123  | \$ 32,123  | \$ 32,123                                     | \$ -                                      | \$ -      |
| Interest-earning time deposits  | 993        | 993  | 993   | -   | -         |
| Securities available for sale   | 9,768      | 9,768  | -   | 9,768                                     | -         |
| Loans held for sale             | 3,325      | 3,424  | -   | 3,424                                     | -         |
| Loans receivable, net           | 1,207,850  | 1,244,434  | -   | -   | 1,244,434 |
| FHLB of New York stock, at cost | 8,830      | 8,830  | -   | 8,830                                     | -         |
| Accrued interest receivable     | 4,454      | 4,454  | -   | 4,454                                     | -         |
| Financial liabilities:          |            |  |   |   |           |
| Deposits                        | 1,028,556  | 1,032,275  | 616,019                                       | 416,256                                   | -         |
| Debt                            | 159,000    | 163,312  | -   | 163,312                                   | -         |
| Subordinated debentures         | 4,124      | 4,236  | -   | 4,236                                     | -         |
| Accrued interest payable        | 815        | 815  | -   | 815                                       | -         |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 17 - Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss included in stockholders' equity are as follows:

|  | At December 31, |            |
|--|-----------------|------------|
|  | 2015            | 2014       |
|  | (In Thousands)  |            |
| Net unrealized loss on securities available for sale | \$ (33)         | \$ 70      |
| Tax effect   | 13              | (28)       |
| Net of tax amount                                    | (20)            | 42         |
| Benefit plan adjustments                             | (2,668)         | (2,331)    |
| Tax effect   | 1,090           | 952        |
| Net of tax amount                                    | (1,578)         | (1,379)    |
| Accumulated other comprehensive loss                 | \$ (1,598)      | \$ (1,337) |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 18 - Parent Only Condensed Financial Information****STATEMENTS OF FINANCIAL CONDITION**

|   | Years Ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2015                     | 2014              |
| (In Thousands)                                    |                          |                   |
| <b>Assets</b>                                     |                          |                   |
| Cash and due from banks                           | \$ 15                    | \$ 204            |
| Investment in subsidiaries                        | 136,244                  | 104,538           |
| Restricted common stock                           | 124                      | 124               |
| Other assets                                      | 1,604                    | 1,757             |
| <b>Total assets</b>                               | <b>137,987</b>           | <b>106,623</b>    |
| <b>Liabilities and Stockholders' Equity</b>       |                          |                   |
| <b>Liabilities</b>                                |                          |                   |
| Subordinated debentures                           | \$ 4,124                 | \$ 4,124          |
| Other Liabilities                                 | 320                      | 247               |
| <b>Total Liabilities</b>                          | <b>4,444</b>             | <b>4,371</b>      |
| <b>Stockholders' Equity</b>                       | <b>133,543</b>           | <b>102,252</b>    |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 137,987</b>        | <b>\$ 106,623</b> |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 18 - Parent Only Condensed Financial Information (Continued)****STATEMENTS OF OPERATIONS**

|  | Years Ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2015                     | 2014            | 2013            |
|  | (In Thousands)           |                 |                 |
| Dividends from Bank subsidiary   | \$ 4,957                 | \$ 6,402        | \$ 6,477        |
| <b>Total Income</b>  | <b>4,957</b>             | <b>6,402</b>    | <b>6,477</b>    |
| Interest expense, borrowed money   | 119                      | 117             | 119             |
| Other  | 190                      | 288             | 312             |
| <b>Total Expense</b>   | <b>309</b>               | <b>405</b>      | <b>431</b>      |
| <b>Income before Income Tax Expense and Equity in Undistributed Earnings of Subsidiaries</b> | <b>4,648</b>             | <b>5,997</b>    | <b>6,046</b>    |
| Income tax benefit   | (106)                    | (139)           | (93)            |
| <b>Income before Equity in Undistributed Earnings of Subsidiaries</b>                        | <b>4,754</b>             | <b>6,136</b>    | <b>6,139</b>    |
| Equity in undistributed earnings of Subsidiaries   | 2,276                    | 1,454           | 3,277           |
| <b>Net Income</b>  | <b>\$ 7,030</b>          | <b>\$ 7,590</b> | <b>\$ 9,416</b> |

**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 18 - Parent Only Condensed Financial Information (Continued)****STATEMENTS OF CASH FLOWS**

|   | Years Ended December 31, |                |                |
|---|--------------------------|----------------|----------------|
|   | 2015                     | 2014           | 2013           |
| <b>(In Thousands)</b>   |                          |                |                |
| <b>Cash Flows from Operating Activities</b>                                       |                          |                |                |
| Net Income  | \$ 7,030                 | \$ 7,590       | \$ 9,416       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                |                |
| Equity in undistributed (earnings) of subsidiaries                                | (2,276)                  | (1,454)        | (3,277)        |
| Decrease (increase) in other assets   | 153                      | (1,602)        | (97)           |
| (Decrease) increase in other liabilities  | 73                       | 25             | (514)          |
| <b>Net Cash Provided By Operating Activities</b>                                  | <b>4,980</b>             | <b>4,559</b>   | <b>5,528</b>   |
| <b>Cash Flows from Investing Activities</b>                                       |                          |                |                |
| Additional investment in subsidiary   | (29,617)                 | (770)          | (3,986)        |
| <b>Net Cash Used In Investing Activities</b>                                      | <b>(29,617)</b>          | <b>(770)</b>   | <b>(3,986)</b> |
| <b>Cash Flows from Financing Activities</b>                                       |                          |                |                |
| Proceeds from issuance of preferred stock   | 3,848                    | 770            | 3,986          |
| Proceeds from issuance of common stock  | 25,978                   | 571            | 157            |
| Cash dividends paid   | (5,378)                  | (5,316)        | (4,419)        |
| Purchase of treasury stock  | -                        | (12)           | (1,916)        |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                        | <b>24,448</b>            | <b>(3,987)</b> | <b>(2,192)</b> |
| <b>Net (Decrease) in Cash and Cash Equivalents</b>                                | <b>(189)</b>             | <b>(198)</b>   | <b>(650)</b>   |
| <b>Cash and Cash Equivalents - Beginning</b>                                      | <b>\$ 204</b>            | <b>\$ 402</b>  | <b>\$ 1052</b> |
| <b>Cash and Cash Equivalents - Ending</b>   | <b>\$ 15</b>             | <b>\$ 204</b>  | <b>\$ 402</b>  |



**BCB Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****Note 19 - Quarterly Financial Data (Unaudited)**

|  | Year Ended December 2015 |                |               |                |
|--|--------------------------|----------------|---------------|----------------|
|  | First Quarter            | Second Quarter | Third Quarter | Fourth Quarter |
| Interest income                                      | \$ 15,520                | \$ 17,036      | \$ 17,216     | \$ 17,608      |
| Interest expense                                     | 2,929                    | 3,340          | 3,673         | 3,927          |
| Net Interest Income                                  | 12,591                   | 13,696         | 13,543        | 13,681         |
| Provision for loan losses                            | 720                      | 1,130          | 70            | 360            |
| Net Interest Income, after Provision for loan losses | 11,871                   | 12,566         | 13,473        | 13,321         |
| Non-interest income                                  | 1,205                    | 1,787          | 1,964         | 2,109          |
| Non-interest expense                                 | 9,984                    | 11,163         | 11,692        | 13,613         |
| Income before Income Taxes                           | 3,092                    | 3,190          | 3,745         | 1,817          |
| Income taxes   | 1,246                    | 1,309          | 1,463         | 796            |
| Net Income   | \$ 1,846                 | \$ 1,881       | \$ 2,282      | \$ 1,021       |
| Preferred stock dividends                            | 202                      | 201            | 254           | 260            |
| Net income available to common stockholders:         | \$ 1,644                 | \$ 1,680       | \$ 2,028      | 761            |
| Net income per common share:                         |                          |                |               |                |
| Basic  | \$ 0.20                  | \$ 0.20        | \$ 0.24       | \$ 0.05        |
| Diluted  | \$ 0.20                  | \$ 0.20        | \$ 0.24       | \$ 0.05        |
| Dividends per common share                           | \$ 0.14                  | \$ 0.14        | \$ 0.14       | \$ 0.14        |

|  | Year Ended December 2014 |                |               |                |
|--|--------------------------|----------------|---------------|----------------|
|  | First Quarter            | Second Quarter | Third Quarter | Fourth Quarter |
| Interest income                                      | \$ 14,621                | \$ 14,783      | \$ 15,610     | \$ 15,181      |
| Interest expense                                     | 2,557                    | 2,539          | 2,556         | 2,655          |
| Net Interest Income                                  | 12,064                   | 12,244         | 13,054        | 12,526         |
| Provision for loan losses                            | 1,000                    | 450            | 650           | 700            |
| Net Interest Income, after Provision for loan losses | 11,064                   | 11,794         | 12,404        | 11,826         |
| Non-interest income                                  | 1,300                    | 2,038          | (750)         | 1,370          |
| Non-interest expense                                 | 8,556                    | 9,466          | 9,926         | 10,461         |
| Income before Income Taxes                           | 3,808                    | 4,366          | 1,728         | 2,735          |
| Income taxes   | 1,573                    | 1,736          | 640           | 1,098          |
| Net Income   | \$ 2,235                 | \$ 2,630       | \$ 1,088      | \$ 1,637       |
| Preferred stock dividends                            | 193                      | 204            | 202           | 201            |
| Net income available to common stockholders:         | \$ 2,042                 | \$ 2,426       | \$ 886        | 1,436          |
| Net income per common share:                         |                          |                |               |                |
| Basic  | \$ 0.24                  | \$ 0.29        | \$ 0.11       | \$ 0.17        |
| Diluted  | \$ 0.24                  | \$ 0.29        | \$ 0.11       | \$ 0.17        |
| Dividends per common share                           | \$ 0.12                  | \$ 0.14        | \$ 0.14       | \$ 0.14        |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-199424, 333-197366, and 333-177502) and on Form S-8 (Nos. 333-112201, 333-165127, 333-169337, 333-174639, and 333-175545) of BCB Bancorp, Inc. (the "Company") of our reports dated March 14, 2016, relating to the Company's consolidated financial statements and the effectiveness of the Company's internal control over financial reporting, which appear in this Form 10-K for the year ended December 31, 2015.

/s/ Baker Tilly Virchow Krause, LLP

Clark, New Jersey  
March 14, 2016

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**Certification of Chief Executive Officer**  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas Coughlin, certify that:

1. I have reviewed this Annual Report on Form 10-K of BCB Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2016

/s/ Thomas Coughlin  
Thomas Coughlin  
President and Chief Executive Officer  
(Principal Executive Officer)

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**Certification of Principal Accounting Officer**  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas P. Keating, certify that:

1. I have reviewed this Annual Report on Form 10-K of BCB Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2016

/s/ Thomas P. Keating

Thomas P. Keating  
Senior Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

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**Certification pursuant to  
18 U.S.C. Section 1350,  
as adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

Thomas Coughlin , President and Chief Executive Officer and Thomas P. Keating, Chief Financial Officer of BCB Bancorp, Inc. (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the annual report of the Company on Form 10- K for the fiscal year ended December 31, 201 5 and that to the best of his knowledge:

- (1) the report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date: March 14 , 201 6

/s/ Thomas Coughlin  
\_\_\_\_\_  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: March 14 , 201 6

/s/ Thomas P. Keating  
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Senior Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

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