FLUSHING FINANCIAL CORP
Form 10-K
March 13, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**11-3209278**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant's telephone number, including area code)

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

Common Stock $0.01 par value (and associated Preferred Stock Purchase Rights)	**NASDAQ Global Select Market**
(Title of each class)	(Name of exchange on which registered)

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 X 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 X 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. X Yes __No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). X 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 X

Non-accelerated filer ___ Smaller reporting company __

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

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter; the aggregate market value of the voting stock held by non-affiliates of the registrant was $542,576,000. This figure is based on the closing price on that date on the NASDAQ Global Select Market for a share of the registrant's Common Stock, $0.01 par value, which was $19.88.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2017 was 28,810,855 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 31, 2017 are incorporated herein by reference in Part III.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this "Annual Report") relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be 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. 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 under the captions "Business — General — Allowance for Loan Losses" and "Business — General — Market Area and Competition" in Item 1 below, "Risk Factors" in Item 1A below, in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "fore or "continue" or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

PART I

As used in this Annual Report on Form 10-K, the words "we," "us," "our" and the "Company" are used to refer to Flushing Financial Corporation and our consolidated subsidiaries, including the surviving entity of the merger (the "Merger") on February 28, 2013 of our wholly owned subsidiary, Flushing Savings Bank, FSB (the "Savings Bank") with and into Flushing Commercial Bank (the "Commercial Bank"). The surviving entity of the Merger was the Commercial Bank, whose name has been changed to "Flushing Bank." References herein to the "Bank" mean the Savings Bank (including its wholly owned subsidiary, the Commercial Bank) prior to the Merger and the surviving entity after the Merger.

Item 1. Business.

GENERAL

Overview

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Savings Bank. On February 28, 2013, the Savings Bank merged with and into the Commercial Bank, with the Commercial Bank as the surviving entity. Pursuant to the Merger, the Commercial Bank's charter was changed to a full-service New York State commercial bank charter, and its name was changed to Flushing Bank. Also in connection with the Merger, Flushing Financial Corporation became a bank holding company. We have not made any significant changes to our operations or services as a result of the Merger. The primary business of Flushing Financial Corporation has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. The Bank has an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol "FFIC."

Flushing Financial Corporation also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the "Trusts"), which are special purpose business trusts formed to issue a total of $60.0 million of capital securities and $1.9 million of common securities (which are the only voting securities). Flushing Financial Corporation owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from Flushing Financial Corporation. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

Unless otherwise disclosed, the information presented in this Annual Report reflects the financial condition and results of operations of Flushing Financial Corporation, the Bank and the Bank's subsidiaries on a consolidated basis (collectively, the "Company"). Management views the Company as operating a single unit – a community bank. Therefore, segment information is not provided. At December 31, 2016, the Company had total assets of $6.1 billion, deposits of $4.2 billion and stockholders' equity of $513.9 million.

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) construction loans, primarily for residential properties; (3) Small Business Administration ("SBA") loans and other small business loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. At December 31, 2016, we had gross loans outstanding of $4,819.1 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling $4,187.8 million, or 86.9% of gross loans, and non-mortgage loans totaling $631.3 million, or 13.1% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which totaled 82.6% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York ("FHLB-NY") borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed, other securities and to a lesser extent proceeds from sales of securities and loans. The Bank's primary regulator is the New York State Department of Financial Services ("NYDFS") (formerly, the New York State Banking Department), and its primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank ("FHLB") system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. The unemployment rate was 5.2% at December 2016 and 2015, for the New York City region, according to the New York Department of Labor. In this economic environment, we saw improvements in our non-performing loans. Non-performing loans totaled $21.4 million, $26.1 million and $34.2 million at December 31, 2016, 2015 and 2014, respectively. Foreclosed properties decreased by 89.2% to $0.5 million at December 31, 2016 from $4.9 million at December 31, 2015. Additionally, net charge-offs of impaired loans decreased in 2016 to a recovery of $0.7 million from net charge-offs of $2.6 million for the year ended December 31, 2015, as we continue to maintain conservative underwriting standards to reduce risk.

Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. Loans which are renewed, modified or restructured are required to be fully underwritten in accordance with our policy for new loans, except when the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, or for a loan classified as a troubled debt restructured ("TDR"). Our policy for modifying a loan due to the borrower's request for changes in the terms will depend on the change requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or

interest. During the last three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Board of Directors of the Bank (the "Bank Board of Directors") or its Loan Committee (the "Loan Committee").

Our operating results are also affected by losses on non-performing loans. Our policy requires a reappraisal by an independent third party when a loan becomes twelve months delinquent. We generally obtain a reappraisal by an independent third party for loans over 90 days delinquent when the outstanding loan balance is at least $1.0 million. We also obtain reappraisals when our internally prepared valuation of a property indicates there has been a decline in value below the outstanding balance of the loan, or when a property inspection has indicated significant deterioration in the condition of the property. These internal valuations are prepared when a loan becomes 90 days delinquent.

The Bank has a business banking unit which focuses on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2016 and 2015, the business banking unit had $613.0 million and $525.3 million, respectively, in gross loans outstanding and $144.4 million and $146.3 million, respectively, of customer deposits.

The Bank has an internet branch, iGObanking.com®, which provides access to consumers in markets outside our geographic locations. Accounts can be opened online at www.iGObanking.com or by mail. Currently iGObanking.com® does not accept loan applications. As of December 31, 2016 and 2015, iGObanking.com® had $417.3 million and $323.7 million, respectively, of customer deposits.

The Bank has a governmental banking unit, which provides banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. At December 31, 2016 and 2015, the government banking unit had $1,062.1 million and $975.9 million, respectively, in customer deposits.

Market Area and Competition

We are a community oriented financial institution offering a wide variety of financial services to meet the needs of the communities we serve. The Bank's main office is in Uniondale, New York, located in Nassau County. At December 31, 2016, the Bank operated out of 19 full-service offices, located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York. We also operate an internet branch, iGObanking.com®. We maintain our executive offices in Uniondale in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

We face intense competition both in making loans and in attracting deposits. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application.

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with 115 banks and thrifts in the counties in which we have branch locations. Our market share of deposits, as of June 30, 2016, in these counties was approximately 0.33% of the total deposits of these FDIC insured competing financial institutions, and we are the 25th largest financial institution. In addition, we compete with credit unions, the stock market and mutual funds for customers' funds. Competition for deposits in our market and for national brokered deposits is primarily based on the types of deposits offered and rate paid on the deposits. Particularly intense competition also exists in all of the lending activities we emphasize. In addition to the financial institutions mentioned above, we compete against mortgage banks and insurance companies located both within our market and available on the internet. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application. The internet banking arena also has many larger financial institutions which have greater financial resources, name recognition and market presence. Our future earnings prospects will be affected by our ability to compete effectively with other financial institutions and to implement our business strategies. Our strategy for attracting deposits includes using various marketing techniques, delivering enhanced technology and customer friendly banking services, and focusing on the unique personal and small business banking needs of the multi-ethnic communities we serve. Our strategy for attracting new loans is primarily dependent on providing timely response to applicants and maintaining a network of quality brokers. See "Risk Factors – The Markets in Which We Operate Are Highly Competitive" included in Item 1A of this Annual Report.

For a discussion of our business strategies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Management Strategy” included in Item 7 of this Annual Report.

Lending Activities

Loan Portfolio Composition. Our loan portfolio consists primarily of mortgage loans secured by multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential property, and commercial business loans. In addition, we also offer construction loans, SBA loans and other consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2016, we had gross loans outstanding of $4,819.1 million (before the allowance for loan losses and net deferred costs).

In recent years we have focused our mortgage loan origination efforts on multi-family residential mortgage loans, although starting in 2014 we increased our focus on commercial real estate and business loans with full banking relationships. In prior years we had focused our mortgage loan originations on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. These loans generally have higher yields than one-to-four family residential properties, and include prepayment penalties that we collect if the loans pay in full prior to the contractual maturity. We expect to continue this emphasis on multi-family residential mortgage loans, commercial real estate and business loans with full banking relationships through marketing and by maintaining competitive interest rates and origination fees. Our marketing efforts include frequent contact with mortgage brokers and other professionals who serve as referral sources.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. See “General – Overview” in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

Our mortgage loan portfolio consists of adjustable rate mortgage (“ARM”) loans and fixed-rate mortgage loans. Interest rates we charge on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rate offered by our competitors and the creditworthiness of the borrower. Many of those factors are, in turn, affected by local and national economic conditions, and the fiscal, monetary and tax policies of the federal, state and local governments.

In general, consumers show a preference for ARM loans in periods of high interest rates and for fixed-rate loans when interest rates are low. In periods of declining interest rates, we may experience refinancing activity in ARM loans, as borrowers show a preference to lock-in the lower rates available on fixed-rate loans. In the case of ARM loans we originated, volume and adjustment periods are affected by the interest rates and other market factors as discussed above as well as consumer preferences. We have not in the past, nor do we currently, originate ARM loans that provide for negative amortization.

At December 31, 2016, we had $11.5 million in construction loans outstanding. We obtain a first lien position on the underlying collateral, and generally obtain guarantees on construction loans. These loans generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions. The greater risk associated with construction loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain.

The business banking unit focuses on loan and deposit relationships to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, including real estate. The interest rate on these loans is generally an adjustable rate based on a published index. These loans, while providing us a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our business loan portfolio.

At times, we may purchase loans from banks, mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated. Our lending activities are subject to federal and state laws and regulations. See "— Regulation."

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

	At December 31,							
	2016		2015		2014		2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Perc of T
	(Dollars in thousands)							
Mortgage Loans:								
Multi-family residential	$2,178,504	45.21 %	$2,055,228	46.98 %	$1,923,460	50.64 %	$1,712,039	50.0
Commercial real estate	1,246,132	25.86	1,001,236	22.90	621,569	16.36	512,552	14.9
One-to-four family - mixed-use property	558,502	11.59	573,043	13.11	573,779	15.10	595,751	17.4
One-to-four family - residential (1)	185,767	3.85	187,838	4.30	187,572	4.94	193,726	5.66
Co-operative apartment (2)	7,418	0.15	8,285	0.19	9,835	0.26	10,137	0.30
Construction	11,495	0.24	7,284	0.17	5,286	0.14	4,247	0.12
Gross mortgage loans	4,187,818	86.90	3,832,914	87.65	3,321,501	87.44	3,028,452	88.4
Non-mortgage loans:								
Small Business Administration	15,198	0.32	12,194	0.28	7,134	0.19	7,792	0.23
Taxi medallion	18,996	0.39	20,881	0.48	22,519	0.59	13,123	0.38
Commercial business and other	597,122	12.39	506,622	11.59	447,500	11.78	373,641	10.9
Gross non-mortgage loans	631,316	13.10	539,697	12.35	477,153	12.56	394,556	11.5
Gross loans	4,819,134	100.00%	4,372,611	100.00%	3,798,654	100.00%	3,423,008	100
Unearned loan fees and deferred costs, net	16,559		15,368		11,719		11,170	
Less: Allowance for loan losses	(22,229)		(21,535)		(25,096)		(31,776)	
Loans, net	$4,813,464		$4,366,444		$3,785,277		$3,402,402	

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2016, gross home equity loans totaled $52.4 million and condominium loans totaled $22.7 million.

(2) Consists of loans secured by shares representing interests in individual co-operative units that are generally owner occupied.

The following table sets forth our loan originations (including the net effect of refinancing) and the changes in our portfolio of loans, including purchases, sales and principal reductions for the years indicated:

	For the years ended December 31,		
(In thousands)	2016	2015	2014
Mortgage Loans			
At beginning of year	$3,832,914	$3,321,501	$3,028,452
Mortgage loans originated:			
Multi-family residential	245,175	205,393	314,148
Commercial real estate	296,620	376,036	165,054
One-to-four family mixed-use property	62,735	68,295	50,070
One-to-four family residential	24,820	40,831	24,727
Co-operative apartment	470	1,625	170
Construction	15,772	4,999	1,566
Total mortgage loans originated	645,592	697,179	555,735
Mortgage loans purchased:			
Multi-family residential	126,022	168,450	106,830
Commercial real estate	26,101	76,053	14,794
Total mortgage loans purchased	152,123	244,503	121,624
Less:			
Principal reductions	434,587	416,101	363,206
Loans transferred to loans held for sale	-	300	-
Mortgage loan sales	7,259	11,057	12,871
Charge-offs	419	1,440	1,780
Mortgage loan foreclosures	546	1,371	6,453
At end of year	$4,187,818	$3,832,914	$3,321,501
Non-mortgage loans			
At beginning of year	$539,697	$477,153	$394,556
Loans originated:			
Small Business Administration	8,447	11,261	1,611
Commercial business	290,444	243,316	227,904
Other	1,738	2,777	3,056
Total other loans originated	300,629	257,354	232,571
Non-mortgage loans purchased:			
Taxi Medallion	-	-	14,431
Commercial business	34,594	34,425	33,805
Total non-mortgage loans purchased	34,594	34,425	48,236

Less:			
Non-mortgage loan sales	3,211	3,935	4
Loans transferred to loans held for sale	-	-	1,150
Principal reductions	239,653	222,895	196,394
Charge-offs	740	2,405	662
At end of year	$631,316	$539,697	$477,153

Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2016. Scheduled repayments are shown in the maturity category in which the payments become due.

	Mortgage loans						Non-mortgage loans		
(In thousands)	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Construction	Small Business Administration	Taxi Medallion	Co bu an
Amounts due within one year	$206,074	$176,764	$38,803	$7,756	$251	$7,799	$2,176	$12,055	$1
Amounts due after one year:									
One to two years	184,443	132,153	28,609	7,170	260	3,696	1,463	4,235	7
Two to three years	181,955	113,596	27,404	7,048	260	-	1,309	2,706	6
Three to five years	179,895	106,904	27,268	7,128	260	-	1,151	-	5
Over five years	1,426,137	716,715	436,418	156,665	6,387	-	9,099	-	2
Total due after one year	1,972,430	1,069,368	519,699	178,011	7,167	3,696	13,022	6,941	4
Total amounts due	$2,178,504	$1,246,132	$558,502	$185,767	$7,418	$11,495	$15,198	$18,996	$5
Sensitivity of loans to changes in interest rates - loans due after one year:									
Fixed rate loans	$354,707	$86,742	$87,321	$31,701	$858	$-	$3,828	$6,357	$1
Adjustable rate loans	1,617,723	982,626	432,378	146,310	6,309	3,696	9,194	584	2
Total loans due after one year	$1,972,430	$1,069,368	$519,699	$178,011	$7,167	$3,696	$13,022	$6,941	$4

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Multi-Family Residential Lending. Loans secured by multi-family residential properties were $2,178.5 million, or 45.21% of gross loans at December 31, 2016. Our multi-family residential mortgage loans had an average principal balance of $1.0 million at December 31, 2016, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of $28.0 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Bank Board of Directors or the Loan Committee as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. We typically order an environmental report on our multi-family and commercial real estate loans.

Loans secured by multi-family residential property generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential property is typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. Loans secured by multi-family residential property also may involve a greater degree of environmental risk. We seek to protect against this risk through obtaining an environmental report. See "—Asset Quality — Environmental Concerns Relating to Loans."

At December 31, 2016, $1,792.9 million, or 82.30%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, due to competitive forces, we may originate ARM loans at an initial rate lower than the fully indexed rate as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased multi-family ARM loans totaling $330.6 million, $339.5 million and $398.9 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $385.7 million, or 17.70%, of our multi-family mortgage loans consisted of fixed rate loans. Our fixed-rate multi-family mortgage loans are generally originated for terms up to 15 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $40.6 million, $34.3 million

and $22.1 million of fixed-rate multi-family mortgage loans in 2016, 2015 and 2014, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were $1,246.1 million, or 25.86% of gross loans, at December 31, 2016. Our commercial real estate mortgage loans are secured by properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers and warehouses. At December 31, 2016, our commercial real estate mortgage loans had an average principal balance of $1.8 million and the largest of such loans, which was secured by seven multi-tenant shopping centers, had a principal balance of $42.7 million. Commercial real estate mortgage loans are generally originated in a range of $100,000 to $6.0 million.

In underwriting commercial real estate mortgage loans, we employ the same underwriting standards and procedures as are employed in underwriting multi-family residential mortgage loans.

Commercial real estate mortgage loans generally carry larger loan balances than one-to-four family residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family residential mortgage loans.

At December 31, 2016, $1,132.5 million, or 90.88%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased commercial ARM loans totaling $293.9 million, $441.1 million and $169.6 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $113.6 million, or 9.12%, of our commercial mortgage loans consisted of fixed-rate loans. Our fixed-rate commercial mortgage loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $28.8 million, $11.0 million and $10.2 million of fixed-rate commercial mortgage loans in 2016, 2015 and 2014, respectively.

One-to-Four Family Mortgage Lending – Mixed-Use Properties. We offer mortgage loans secured by one-to-four family mixed-use properties. These properties contain up to four residential dwelling units and a commercial unit. We offer both fixed-rate and adjustable-rate one-to-four family mixed-use property mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.0 million. Loan originations primarily result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and persons who respond to our marketing efforts and referrals. One-to-four family mixed-use property mortgage loans were $558.5 million, or 11.59% of gross loans, at December 31, 2016.

In underwriting one-to-four family mixed-use property mortgage loans, we employ the same underwriting standards as are employed in underwriting multi-family residential mortgage loans.

At December 31, 2016, $452.6 million, or 81.03%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased one-to-four family mixed-use property ARM loans totaling $72.4 million, $54.6 million and $39.4 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $105.9 million, or 18.97%, of our one-to-four family mixed-use property mortgage loans consisted of fixed-rate loans. Our fixed-rate one-to-four family mixed-use property mortgage loans are originated for terms of up to 15 years and are competitively priced based on market conditions and the Bank’s cost of funds. We originated and purchased $15.6 million, $13.7 million and $10.7 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2016, 2015 and 2014, respectively.

One-to-Four Family Mortgage Lending – Residential Properties. We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as “residential mortgage loans.” We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.0 million. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and referrals. Residential mortgage loans were $193.2 million, or 4.00% of gross loans, at December 31,

2016.

We generally originate residential mortgage loans in amounts up to 80% of the appraised value or the sale price, whichever is less. We may make residential mortgage loans with loan-to-value ratios of up to 90% of the appraised value of the mortgaged property; however, private mortgage insurance is required whenever loan-to-value ratios exceed 80% of the appraised value of the property securing the loan.

In addition to income verified loans, we have in the past originated residential mortgage loans to self-employed individuals within our local community based on stated income and verifiable assets that allowed us to assess repayment ability, provided that the borrower’s stated income is considered reasonable for the borrower’s type of business. The preponderance of stated income one-to-four family residential mortgage loans were made available to self-employed individuals within our local community for their primary residence. Our underwriting standards required that we verify the assets of the borrowers and the sources of their cash flows. The information reviewed for purchases included at least three months and refinances included at least one month of personal bank statements (checking and savings accounts), statements of investment accounts, business checking account statements (when applicable), and other information provided by the borrowers about their personal holdings. Our review of these bank statements allowed us to assess whether or not their stated income appeared reasonable in comparison to their cash flows, and if their income level supported their personal holdings. We also obtained and reviewed credit reports on these borrowers. An acceptable credit report was one of the key factors in approving this type of mortgage loan. We obtained appraisals from an independent third party for the property, and limited the amount we lent on the properties to 80% of the lesser of the property’s appraised value or the purchase price. Home equity lines of credit were offered on one-to-four residential properties to homeowners based on various levels of income verification. We limited the amount available under a home equity line of credit to 80% of the lesser of the appraised value of the property or the purchase price. These loans involve a higher degree of risk as compared to our other fully underwritten residential mortgage loans as there is a greater opportunity for self-employed borrowers to falsify or overstate their level of income and ability to service indebtedness. This risk is mitigated by the requirements discussed above in our loan policy. In addition, since 2009, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower’s income. We also discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010. We had $9.0 million and $9.9 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2016 and 2015, respectively. We had $38.6 million and $41.4 million advanced on home equity lines of credit for which we did not verify the borrowers’ income at December 31, 2016 and 2015, respectively.

At December 31, 2016, $151.0 million, or 81.29%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan and have interest rate floors. We originated and purchased adjustable rate residential mortgage loans totaling $24.3 million, $39.2 million and $21.0 million during 2016, 2015 and 2014, respectively.

The retention of ARM loans in our portfolio helps us reduce our exposure to interest rate risks. However, in an environment of rapidly increasing interest rates, it is possible for the interest rate increase to exceed the maximum aggregate adjustment on one-to-four family residential ARM loans and negatively affect the spread between our interest income and our cost of funds.

ARM loans generally involve credit risks different from those inherent in fixed-rate loans, primarily because if interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. However, this potential risk is lessened by our policy of originating one-to-four family residential ARM loans with annual and lifetime interest rate caps that limit the increase of a borrower's monthly payment.

At December 31, 2016, $34.8 million, or 18.71%, of our residential mortgage loans consisted of fixed-rate loans. Our fixed-rate residential mortgage loans typically are originated for terms of 15 and 30 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $0.9 million, $3.3 million and $3.9 million in 15-year fixed-rate residential mortgages in 2016, 2015 and 2014, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2016, 2015 and 2014.

At December 31, 2016, home equity loans totaled $52.4 million, or 1.09%, of gross loans. Home equity loans are included in our portfolio of residential mortgage loans. These loans are offered as adjustable-rate "home equity lines of credit" on which interest only is due for an initial term of 10 years and thereafter principal and interest payments sufficient to liquidate the loan are required for the remaining term, not to exceed 30 years. These adjustable "home equity lines of credit" may include a "floor" and/or a "ceiling" on the interest rate that we charge for these loans. These loans also may be offered as fully amortizing closed-end fixed-rate loans for terms up to 15 years. The majority of home equity loans originated are owner occupied one-to-four family residential properties and condominium units. To a lesser extent, home equity loans are also originated on one-to-four residential properties held for investment and second homes. All home equity loans are subject to an 80% loan-to-value ratio computed on the basis of the aggregate of the first mortgage loan amount outstanding and the proposed home equity loan. They are generally granted in amounts from $25,000 to $300,000.

Construction Loans. At December 31, 2016, construction loans totaled $11.5 million, or 0.24%, of gross loans. Our construction loans primarily have been made to finance the construction of one-to-four family residential properties, multi-family residential properties and residential condominiums. We also, to a limited extent, finance the

construction of commercial real estate. Our policies provide that construction loans may be made in amounts up to 70% of the estimated value of the developed property and only if we obtain a first lien position on the underlying real estate. However, we generally limit construction loans to 60% of the estimated value of the developed property. In addition, we generally require personal guarantees on all construction loans. Construction loans are generally made with terms of two years or less. Advances are made as construction progresses and inspection warrants, subject to continued title searches to ensure that we maintain a first lien position. We made construction loans of $15.8 million, $5.0 million and $1.6 million during 2016, 2015 and 2014, respectively.

Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions.

Small Business Administration Lending. At December 31, 2016, SBA loans totaled $15.2 million, representing 0.32%, of gross loans. These loans are extended to small businesses and are guaranteed by the SBA up to a maximum of 85% of the loan balance for loans with balances of $150,000 or less, and to a maximum of 75% of the loan balance for loans with balances greater than $150,000. We also provide term loans and lines of credit up to $350,000 under the SBA Express Program, on which the SBA provides a 50% guaranty. The maximum loan size under the SBA guarantee program was $2.0 million, with a maximum loan guarantee of $1.5 million. The Small Business Jobs Act of 2010 permanently increased the limits to a maximum loan size of $5.0 million, with a maximum loan guarantee of $3.75 million. All SBA loans are underwritten in accordance with SBA Standard Operating Procedures which requires collateral and the personal guarantee of the owners with more than 20% ownership from SBA borrowers. Typically, SBA loans are originated in the range of $25,000 to $2.0 million with terms ranging from one to seven years and up to 25 years for owner occupied commercial real estate mortgages. SBA loans are generally offered at adjustable rates tied to the prime rate (as published in the *Wall Street Journal*) with adjustment periods of one to three months. At times, we may sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retaining the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased $8.4 million, $11.3 million and $1.6 million of SBA loans during 2016, 2015 and 2014, respectively.

Taxi Medallion. At December 31, 2016, taxi medallion loans consisted of loans made to New York City and Chicago taxi medallion owners, which are secured by liens on the taxi medallions, totaling $19.0 million, or 0.39%, of gross loans. In 2015, we decided to no longer originate or purchase taxi medallion loans. Therefore, we did not originate or purchase any taxi medallion loans in 2016 or 2015, but originated and purchased $14.4 million during 2014.

Commercial Business and Other Lending. At December 31, 2016, commercial business and other loans totaled $597.1 million, or 12.39%, of gross loans. We originate and purchase commercial business loans and other loans for business, personal, or household purposes. Commercial business loans are provided to businesses in the New York City metropolitan area with annual sales of up to $250.0 million. Our commercial business loans include lines of credit and term loans including owner occupied mortgages. These loans are secured by business assets, including accounts receivables, inventory and real estate and generally require personal guarantees. The Bank also, at times, enters into participations/syndications with other banks on senior secured commercial business loans. Commercial business loans are generally originated in a range of $100,000 to $10.0 million.

At December 31, 2016, $409.7 million, or 68.61%, of our commercial business loans consisted of adjustable rate loans. We generally offer adjustable rate loans with adjustment periods of five years for owner occupied mortgages and for lines of credit the adjustment period is generally monthly. Interest rates on adjustable rate loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate for owner occupied mortgages and a fixed spread above the London Interbank Offered Rate (“LIBOR”) or Prime Rate for lines of credit. Commercial business adjustable-rate loans generally are not

subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan, however they generally are subject to interest rate floors.

At December 31, 2016, $187.4 million, or 31.39%, of our commercial business loans consisted of fixed-rate loans. Our fixed-rate commercial business loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds.

Other loans generally consist of overdraft lines of credit. Generally, unsecured consumer loans are limited to amounts of $5,000 or less for terms of up to five years. We originated and purchased $1.7 million, $2.8 million and $3.1 million of other loans during 2016, 2015 and 2014, respectively. The underwriting standards employed by us for consumer and other loans include a determination of the applicant's payment history on other debts and assessment of the applicant's ability to meet payments on all of his or her obligations. In addition to the creditworthiness of the applicant, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Unsecured loans tend to have higher risk, and therefore command a higher interest rate.

Loan Extensions, Renewals, Modifications and Restructuring. Extensions, renewals, modifications or restructuring a loan, other than a loan that is classified as a TDR, requires the loan to be fully underwritten in accordance with our policy. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower's request for changes in the terms will depend on the changes requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by the appropriate Loan Committee.

Loan Approval Procedures and Authority. The Board of Directors of the Company (the "Board of Directors") approved lending policies establishing loan approval requirements for our various types of loan products. Our Residential Mortgage Lending Policy (which applies to all one-to-four family mortgage loans, including residential and mixed-use property) establishes authorized levels of approval. One-to-four family mortgage loans that do not exceed $750,000 require two signatures for approval, one of which must be from either the Senior Executive Vice President, the Executive Vice President or a Senior Vice President (collectively, "Authorized Officers") and the other from a Senior Underwriter, Manager, Underwriter or Junior Underwriter in the Residential Mortgage Loan Department (collectively, "Loan Officers"), and ratification by the Management Loan Committee. For one-to-four family mortgage loans in excess of $750,000 up to $2.5 million, three signatures are required for approval, at least two of which must be from Authorized Officers, and the other one may be a Loan Officer, and ratification by the Management Loan Committee and the Director's Loan Committee. The Director's Loan Committee or the Bank Board of Directors also must approve one-to-four family mortgage loans in excess of $2.5 million. Pursuant to our Commercial Real Estate Lending Policy, loans secured by commercial real estate and multi-family residential properties up to $2.0 million are approved by the Executive Vice President of Commercial Real Estate and the Senior Executive Vice President, Chief of Real Estate Lending and then ratified by the Management Loan Committee and/or the Director's Loan Committee. Loans provided in excess of $2.0 million and up to and including $5.0 million must be submitted to the Management Loan Committee for final approval and then to the Director's Loan Committee and/or Board of Directors for ratification. Loans in excess of $5.0 million and up to and including $25.0 million must be submitted to the Director's Loan Committee and/or the Board of Directors for approval. Loan amounts in excess of $25.0 million must be approved by the Board of Directors.

In accordance with our Business Credit Policy all business and SBA loans up to $2.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of $2.5 million up to $5.0 million must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures from the Business Loan Committee for approval.

Our Construction Loan Policy requires construction loans up to and including $1.0 million must be approved by the Senior Executive Vice President, Chief of Real Estate Lending and the Executive Vice President of Commercial Real Estate, and ratified by the Management Loan Committee or the Director's Loan Committee. Such loans in excess of $1.0 million up to and including $2.5 million require the same officer approvals, approval of the Management Loan Committee, and ratification of the Director's Loan Committee or the Bank Board of Directors. Construction loans in excess of $15.0 million require the same officer approvals, approval by the Management Loan Committee, and approval of the Bank Board of Directors. Any loan, regardless of type, that deviates from our written credit policies must be approved by the Loan Committee or the Bank Board of Directors.

For all loans originated by us, upon receipt of a completed loan application, a credit report is ordered and certain other financial information is obtained. An appraisal of the real estate intended to secure the proposed loan is required to be received. An independent appraiser designated and approved by us currently performs such appraisals. Our staff appraisers review all appraisals. The Bank Board of Directors annually approves the independent appraisers used by the Bank and approves the Bank's appraisal policy. It is our policy to require borrowers to obtain title insurance and hazard insurance on all real estate loans prior to closing. For certain borrowers, and/or as required by law, the Bank may require escrow funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes and, in some cases, hazard insurance premiums.

Loan Concentrations. The maximum amount of credit that the Bank can extend to any single borrower or related group of borrowers generally is limited to 15% of the Bank's unimpaired capital and surplus, or $91.1 million at December 31, 2016. Applicable laws and regulations permit an additional amount of credit to be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. See "-Regulation." However, it is currently our policy not to extend such additional credit. At December 31, 2016, there were no loans in excess of the maximum dollar amount of loans to one borrower that the Bank was authorized to make. At that date, the three largest concentrations of loans to one borrower consisted of loans secured by commercial real estate, multi-family income producing properties and business loans with an aggregate principal balance of $74.0 million, $60.0 million and $54.5 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2016, we were servicing $1.3 million of mortgage loans and $13.1 million of SBA loans for others. Our policy is to retain the servicing rights to the mortgage and SBA loans that we sell in the secondary market, other than non-performing loans that are sold with servicing released to the buyer. In order to increase revenue, management intends to continue this policy.

Asset Quality

Loan Collection. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. In the case of mortgage loans, personal contact is made with the borrower after the loan becomes 30 days delinquent. We take a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with one of our representatives. When deemed appropriate, we develop short-term payment plans that enable borrowers to bring their loans current, generally within six to nine months. At times, when a borrower is experiencing financial difficulties, we may restructure a loan to enable a borrower to continue making payments when it is deemed to be in our best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as TDR. At December 31, 2016, we had $17.8 million of loans classified as TDR, with $17.4 million of these loans performing according to their restructured terms and $0.4 million not performing according to their restructured terms. We review delinquencies on a loan by loan basis, diligently exploring ways to help borrowers meet their obligations and return them back to current status, and we have increased staffing to handle delinquent loans by hiring people experienced in loan workouts.

When the borrower has indicated that they will be unable to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time, the loan is classified as non-performing. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. At December 31, 2016, there were two loans, which totaled $0.4 million, past due 90 days or more and still accruing interest.

Upon classifying a loan as non-performing, we review available information and conditions that relate to the status of the loan, including the estimated value of the loan's collateral and any legal considerations that may affect the borrower's ability to continue to make payments. Based upon the available information, we will consider the sale of the loan or retention of the loan. If the loan is retained, we may continue to work with the borrower to collect the amounts due or start foreclosure proceedings. If a foreclosure action is initiated and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure or by us as soon thereafter as practicable.

Once the decision to sell a loan is made, we determine what we would consider adequate consideration to be obtained when that loan is sold, based on the facts and circumstances related to that loan. Investors and brokers are then contacted to seek interest in purchasing the loan. We have been successful in finding buyers for some of our non-performing loans offered for sale that are willing to pay what we consider to be adequate consideration. Terms of the sale include cash due upon closing of the sale, no contingencies or recourse to us, servicing is released to the buyer and time is of the essence. These sales usually close within a reasonably short time period.

This strategy of selling non-performing loans has allowed us to optimize our return by quickly converting our non-performing loans to cash, which can then be reinvested in earning assets. This strategy also allows us to avoid lengthy and costly legal proceedings that may occur with non-performing loans. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

The following tables show delinquent and non-performing loans sold during the period indicated:

	For the years ended December 31,		
(Dollars in thousands)	2016	2015	2014
Count	26	23	34
Proceeds	$7,965	$8,986	$15,857
Net recoveries	48	134	357
Gross gains	265	71	67
Gross losses	-	2	-

On mortgage loans or loan participations purchased by us for whom the seller retains the servicing rights, we receive monthly reports with which we monitor the loan portfolio. Based upon servicing agreements with the servicers of the loans, we rely upon the servicer to contact delinquent borrowers, collect delinquent amounts and initiate foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between us and our servicing agents. The servicers are required to submit monthly reports on their collection efforts on delinquent loans. At December 31, 2016, we held $742.6 million of loans that were serviced by others.

In the case of commercial business or other loans, we generally send the borrower a written notice of non-payment when the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made in order to encourage the borrower to meet with one of our representatives to discuss the delinquency. If the loan still is not brought current and it becomes necessary for us to take legal action, which typically occurs after a loan is delinquent 90 days or more, we may attempt to repossess personal or business property that secures an SBA loan, commercial business loan or consumer loan.

Troubled Debt Restructured . We have restructured certain problem loans for borrowers who are experiencing financial difficulties by either: reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, deferring a portion of the interest payment, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. These restructurings have not included a reduction of principal balance. We believe that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans.

These restructured loans are classified TDR. Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months.

The following table shows our recorded investment in loans classified as TDR that are performing according to their restructured terms at the periods indicated:

	At December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Multi-family residential	$2,572	$2,626	$3,035	$3,087	$2,347
Commercial real estate	2,062	2,371	2,373	2,407	7,190
One-to-four family mixed-use property	1,800	2,052	2,381	2,692	2,336
One-to-four family residential	591	343	354	364	374
Construction	-	-	-	746	3,805
Small Business Administration	-	34	-	-	-
Taxi medallion	9,735	-	-	-	-
Commercial business and other	675	2,083	2,249	4,406	3,849
Total performing troubled debt restructured	$17,435	$9,509	$10,392	$13,702	$19,901

Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table above, as they are placed on non-accrual status and reported as non-performing loans. At December 31, 2016 and 2015, there was one loan for $0.4 million which was restructured as TDR which was not performing in accordance with its restructured terms.

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due or foreclosure proceedings have been commenced, whichever first occurs. At that time, previously accrued but uncollected interest is reversed from income. Loans in default 90 days or more as to their maturity date but not their payments, however, continue to accrue interest as long as the borrower continues to remit monthly payments.

The following table shows our non-performing assets, including loans held for sale, at the dates indicated. During the years ended December 31, 2016, 2015 and 2014, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled $1.5 million, $1.7 million and $2.1 million, respectively. These amounts were not included in our interest income for the respective periods.

	At December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Loans 90 days or more past due and still accruing:					
Multi-family residential	$-	$233	$676	$52	$-
Commercial real estate	-	1,183	820	-	-
One-to-four family mixed-use property	386	611	405	-	-
One-to-four family - residential	-	13	14	15	-
Construction	-	1,000	-	-	-
Commercial Business and other	-	220	386	539	644
Total	386	3,260	2,301	606	644
Non-accrual mortgage loans:					
Multi-family residential	1,837	3,561	6,878	13,682	16,486
Commercial real estate	1,148	2,398	5,689	9,962	15,640
One-to-four family mixed-use property	4,025	5,952	6,936	9,063	18,280
One-to-four family residential	8,241	10,120	11,244	13,250	13,726
Co-operative apartments	-	-	-	57	234
Construction	-	-	-	-	7,695
Total	15,251	22,031	30,747	46,014	72,061
Non-accrual non-mortgage loans:					
Small Business Administration	1,886	218	-	-	283
Taxi Medallion	3,825	-	-	-	-
Commercial Business and other	68	568	1,143	2,348	16,860
Total	5,779	786	1,143	2,348	17,143
Total non-accrual loans	21,030	22,817	31,890	48,362	89,204
Total non-performing loans	21,416	26,077	34,191	48,968	89,848
Other non-performing assets:					
Real Estate Owned	533	4,932	6,326	2,985	5,278
Investment securities	-	-	-	1,871	3,332
Total	533	4,932	6,326	4,856	8,610
Total non-performing assets	$21,949	$31,009	$40,517	$53,824	$98,458
Non-performing loans to gross loans	0.44 %	0.60 %	0.90 %	1.43 %	2.79 %
Non-performing assets to total assets	0.36 %	0.54 %	0.80 %	1.14 %	2.21 %

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The following table shows our delinquent loans that are less than 90 days past due and still accruing interest at the periods indicated:

	December 31, 2016		December 31, 2015	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)		(In thousands)	
Multi-family residential	$287	$2,575	$804	$9,422
Commercial real estate	22	3,363	153	2,820
One-to-four family - mixed-use property	762	4,671	1,257	8,630
One-to-four family - residential	-	3,831	154	4,261
Construction loans	-	-	-	-
Small Business Administration	-	13	-	42
Commercial business and other	1	22	2	-
Total	$1,072	$14,475	$2,370	$25,175

Other Real Estate Owned. We aggressively market our Other Real Estate Owned ("OREO") properties. At December 31, 2016, we owned one OREO properties with a fair value of $0.5 million. At December 31, 2015, we owned four OREO properties with a combined fair value of $4.9 million. At December 31, 2014, we owned eight OREO properties with a combined fair value of $6.3 million.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure as an in-substance repossession. During the year ended December 31, 2016, we did not foreclose on any consumer mortgages through in-substance repossession. At December 31, 2016, 2015 and 2014, we held foreclosed residential real estate totaling $0.5 million, $0.1 million and $1.3 million, respectively. Included within net loans as of December 31, 2016 was a recorded investment of $11.4 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Environmental Concerns Relating to Loans. We currently obtain environmental reports in connection with the underwriting of commercial real estate loans, and typically obtain environmental reports in connection with the underwriting of multi-family loans. For all other loans, we obtain environmental reports only if the nature of the current or, to the extent known to us, prior use of the property securing the loan indicates a potential environmental risk. However, we may not be aware of such uses or risks in any particular case, and, accordingly, there is no assurance that real estate acquired by us in foreclosure is free from environmental contamination or that, if any such contamination or other violation exists, whether we will have any liability.

Classified Assets. Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as "Special Mention," which is considered a "Criticized Asset," and "Substandard," "Doubtful," or "Loss" which are considered "Classified Assets," as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were $72.6 million at December 31, 2016, an increase of $17.8 million from $54.8 million at December 31, 2015. The increase in criticized and classified assets was primarily due to an increase in special mention and substandard taxi medallion loans and special mention commercial business and other loans.

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2016:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 7,133	$ 3,351	$ -	$ -	$ 10,484
Commercial real estate	2,941	4,489	-	-	7,430
One-to-four family - mixed-use property	4,197	7,009	-	-	11,206
One-to-four family - residential	1,205	9,399	-	-	10,604
Construction loans	-	-	-	-	-
Small Business Administration	540	436	-	-	976
Taxi medallion	2,715	16,228	54	-	18,997
Commercial business and other	9,924	2,493	-	-	12,417
Total loans	28,655	43,405	54	-	72,114
Other Real Estate Owned	-	533	-	-	533
Total	$ 28,655	$ 43,938	$ 54	$ -	$ 72,647

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 4,361	$ 5,421	$ -	$ -	$ 9,782
Commercial real estate	1,821	3,812	-	-	5,633
One-to-four family - mixed-use property	3,087	10,990	-	-	14,077
One-to-four family - residential	1,437	12,255	-	-	13,692
Construction loans	-	1,000	-	-	1,000
Small Business Administration	229	224	-	-	453
Taxi medallion	-	2,118	-	-	2,118
Commercial business and other	-	3,123	-	-	3,123
Total loans	10,935	38,943	-	-	49,878
Other Real Estate Owned	-	4,932	-	-	4,932
Total	$ 10,935	$ 43,875	$ -	$ -	$ 54,810

On a quarterly basis all mortgage loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the

most recent reported arm's length transaction. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At December 31, 2016, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 48.15%.

Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses (“ALL”) that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors. Additionally, we segregated our loans into two portfolios based on year of origination. One portfolio is loans originated after December 31, 2009 and the second portfolio loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the property’s updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm’s length transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. In addition, taxi medallion loans with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the reserve in the amount of the excess of the loan-to-value over the loan’s principal balance. The balance which exceeds fair value is generally charged-off, except for taxi medallion loans. The 85% is based on the actual net proceeds the Bank has received from the sale of OREO as a percentage of OREO’s appraised value. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties’ estimated value had declined from when the loan was originated. The Board of Directors reviews and approves the adequacy of the allowance for loan losses on a quarterly basis.

In assessing the adequacy of the allowance, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. Non-performing loans totaled $21.4 million and $26.1 million at December 31, 2016 and 2015, respectively. The Bank’s underwriting standards generally require a loan-to-value ratio

of no more than 75% at the time the loan is originated. At December 31, 2016, the outstanding principal balance of our impaired mortgage loans was approximately 39% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We incurred total net recoveries (charge-offs) of $0.7 million and ($2.6) million during the years ended December 31, 2016 and 2015, respectively. The improvement in non-performing loans allowed us to not record a provision for the year ended December 31, 2016 and record a benefit in the provision for loan losses of $1.0 million and $6.0 million for the years ended December 31, 2015 and 2014, respectively. Management has concluded, and the Board of Directors has concurred, that at December 31, 2016, the allowance was sufficient to absorb losses inherent in our loan portfolio.

Our determination as to the classification of our assets and the amount of our valuation allowance is subject to review by our regulators, which can require the establishment of additional general allowances or specific loss allowances or require charge-offs. Such authorities may require us to make additional provisions to the allowance based on their judgments about information available to them at the time of their examination. A policy statement provides guidance for examiners in determining whether the levels of general valuation allowances for banking institutions are adequate. The policy statement requires that if a bank’s general valuation allowance policies and procedures are deemed to be inadequate, recommendations for correcting deficiencies, including any examiner concerns regarding the level of the allowance, should be noted in the report of examination. Additional supervisory action may also be taken based on the magnitude of the observed shortcomings in the allowance process, including the materiality of any error in the reported amount of the allowance.

During the year ended December 31, 2106, the portion of the ALL related to the loss history declined. Charge-offs recorded in the past twelve quarters have decreased as credit conditions have improved. The percentage of loans originated prior to 2009, compared to the total loan portfolio, is decreasing as scheduled amortization and repayments have occurred. These reductions in the ALL were partially offset by an additional allocation to our taxi medallion portfolio coupled with an increase in the outstanding loan balances. Management believes that our current allowance for loan losses is adequate in light of current economic conditions, the composition of our loan portfolio, the level and type of delinquent loans, our level of classified loans, charge-offs recorded and other available information and the Board of Directors concurs in this belief. At December 31, 2016, the total allowance for loan losses was $22.2 million, representing 103.80% of non-performing loans and 101.28% of non-performing assets, compared to 82.58% of non-performing loans and 69.45% of non-performing assets at December 31, 2015. We continue to monitor and, as necessary, modify the level of our allowance for loan losses in order to maintain the allowance at a level which we consider adequate to provide for probable loan losses based on available information.

Many factors may require additions to the allowance for loan losses in future periods beyond those currently revealed. These factors include further adverse changes in economic conditions, changes in interest rates and changes in the financial capacity of individual borrowers (any of which may affect the ability of borrowers to make repayments on loans), changes in the real estate market within our lending area and the value of collateral, or a review and evaluation of our loan portfolio in the future. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraised values of collateral, national and local economic conditions, interest rates and other factors. In addition, our overall level of credit risk inherent in our loan portfolio can be affected by the loan portfolio's composition. At December 31, 2016, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 82.9% of our gross loans. The greater risk associated with these loans, as well as business loans, could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans that is in excess of the allowance we currently maintain. Provisions for loan losses are charged against net income. See "—Lending Activities" and "—Asset Quality."

The following table sets forth changes in, and the balance of, our allowance for loan losses.

	At and for the years ended December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Balance at beginning of year	$21,535	$25,096	$31,776	$31,104	$30,344
Provision (benefit) for loan losses	-	(956)	(6,021)	13,935	21,000
Loans charged-off:					
Multi-family residential	(161)	(474)	(1,161)	(3,585)	(6,016)
Commercial real estate	-	(32)	(325)	(1,051)	(2,746)
One-to-four family mixed-use property	(144)	(592)	(423)	(4,206)	(4,286)
One-to-four family residential	(114)	(342)	(103)	(701)	(1,583)
Co-operative apartment	-	-	-	(108)	(62)
Construction	-	-	-	(2,678)	(4,591)
SBA	(529)	(34)	(49)	(457)	(324)
Taxi Medallion	(142)	-	-	-	-
Commercial business and other loans	(69)	(2,371)	(381)	(2,057)	(1,661)
Total loans charged-off	(1,159)	(3,845)	(2,442)	(14,843)	(21,269)
Recoveries:					
Mortgage loans	1,493	888	1,515	1,407	838
SBA, commercial business and other loans	360	352	268	173	191
Total recoveries	1,853	1,240	1,783	1,580	1,029
Net recoveries (charge-offs)	694	(2,605)	(659)	(13,263)	(20,240)
Balance at end of year	$22,229	$21,535	$25,096	$31,776	$31,104
Ratio of net (recoveries) charge-offs during the year to average loans outstanding during the year	-0.02 %	0.06 %	0.02 %	0.41 %	0.64 %
Ratio of allowance for loan losses to gross loans at end of the year	0.46 %	0.49 %	0.66 %	0.93 %	0.97 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	103.80 %	82.58 %	73.40 %	64.89 %	34.62 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	101.28 %	69.45 %	61.94 %	59.04 %	31.59 %

The following table sets forth our allocation of the allowance for loan losses to the total amount of loans in each of the categories listed at the dates indicated. The numbers contained in the "Amount" column indicate the allowance for loan losses allocated for each particular loan category. The numbers contained in the column entitled "Percentage of Loans in Category to Total Loans" indicate the total amount of loans in each particular category as a percentage of our loan portfolio.

	At December 31,									
	2016		2015		2014		2013		2012	
Loan Category	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	
	(Dollars in thousands)									
Mortgage loans:										
Multi-family residential	$5,923	45.21 %	$6,718	46.98 %	$8,827	50.64 %	$12,084	50.02 %	$13,001	
Commercial real estate	4,487	25.86	4,239	22.90	4,202	16.36	4,959	14.97	5,705	
One-to-four family mixed-use property	2,903	11.59	4,227	13.11	5,840	15.10	6,328	17.40	5,960	
One-to-four family residential	1,015	3.85	1,227	4.30	1,690	4.94	2,079	5.66	1,999	
Co-operative apartment	-	0.15	-	0.19	-	0.26	104	0.30	46	
Construction	92	0.24	50	0.17	42	0.14	444	0.12	66	
Gross mortgage loans	14,420	86.90	16,461	87.65	20,601	87.44	25,998	88.47	26,777	
Non-mortgage loans:										
Small Business Administration	481	0.32	262	0.28	279	0.19	458	0.23	505	
Taxi Medallion	2,243	0.39	343	0.48	11	0.59	-	0.38	7	
Commercial business and other	4,492	12.39	4,469	11.59	4,205	11.78	5,320	10.92	3,815	
Gross non-mortgage loans	7,216	13.10	5,074	12.35	4,495	12.56	5,778	11.53	4,327	
Unallocated	593	-	-	-	-	-	-	-	-	
Total loans	$22,229	100.00%	$21,535	100.00%	$25,096	100.00%	$31,776	100.00%	$31,104	

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Investment Activities

General. Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity "gap" position, the types of securities to be held, and other factors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview—Management Strategy" in Item 7 of this Annual Report.

Although we have authority to invest in various types of assets, we primarily invest in mortgage-backed securities, securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, corporate bonds and collateralized loan obligations ("CLO"). We did not hold any issues of foreign sovereign debt at December 31, 2016 and 2015.

Our Investment Committee meets quarterly to monitor investment transactions and to establish investment strategy. The Board of Directors reviews the investment policy on an annual basis and investment activity on a monthly basis.

We classify our investment securities as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as held-to-maturity when management intends to hold the securities until maturity. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on securities available for sale, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in accumulated other comprehensive loss (a separate component of equity), net of taxes. Securities held-to-maturity are carried at their cost basis. At December 31, 2016, we had $861.4 million in securities available for sale and $37.7 million in securities held-to-maturity, which together represented 14.83% of total assets. These securities had an aggregate market value at December 31, 2016 that was approximately 1.7 times the amount of our equity at that date.

There were no credit related OTTI charges recorded during the years ended December 31, 2016, 2015 and 2014. As a result of the magnitude of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. (See Notes 6 and 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest-earning deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value. (See Notes 6 and 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

	At December 31,					
	2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities held-to-maturity						
Bonds and other debt securities:						
Municipal securities	$37,735	$35,408	$6,180	$6,180	$-	$-
Total bonds and other debt securities	37,735	35,408	6,180	6,180	-	-
Securities available for sale						
Bonds and other debt securities:						
Municipal securities	124,984	126,903	127,696	131,583	145,864	148,896
Corporate debentures	110,000	102,910	115,976	111,674	90,719	91,273
Collateralized loan obligations	85,470	86,365	53,225	52,898	-	-
Total bonds and other debt securities	320,454	316,178	296,897	296,155	236,583	240,169
Mutual funds	21,366	21,366	21,290	21,290	21,118	21,118
Equity securities:						
Common stock	1,019	1,019	871	871	864	864
Preferred stock	6,344	6,342	6,343	6,341	6,234	6,226
Total equity securities	7,363	7,361	7,214	7,212	7,098	7,090
Mortgage-backed securities:						
REMIC and CMO	402,636	401,370	469,987	469,936	504,207	505,768
GNMA	1,319	1,427	11,635	11,798	13,862	14,159
FNMA	109,493	108,351	170,327	170,057	169,956	170,367
FHLMC	5,378	5,328	16,961	16,949	14,505	14,639
Total mortgage-backed securities	518,826	516,476	668,910	668,740	702,530	704,933
Total securities available for sale	868,009	861,381	994,311	993,397	967,329	973,310
Interest-earning deposits and Federal funds sold	25,771	25,771	32,825	32,825	22,977	22,977
Total	$931,515	$922,560	$1,033,316	$1,032,402	$990,306	$996,287

Mortgage-backed securities. At December 31, 2016, we had $516.5 million invested in mortgage-backed securities, of which $2.8 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of the Bank.

The following table sets forth our mortgage-backed securities purchases, sales and principal repayments for the years indicated:

	For the years ended December 31,		
	2016	2015	2014
	(In thousands)		
Balance at beginning of year	$668,740	$704,933	$756,156
Purchases of mortgage-backed securities	90,572	169,383	125,897
Amortization of unearned premium, net of accretion of unearned discount	(2,086)	(2,747)	(2,699)
Net change in unrealized gains on mortgage-backed securities available for sale	(2,180)	(2,573)	11,117
Net realized gains (losses) recorded on mortgage-backed securities carried at fair value	(33)	77	84
Net change in interest due on securities carried at fair value	-	(6)	(8)
Sales of mortgage-backed securities	(126,045)	(103,100)	(85,021)
Principal repayments received on mortgage-backed securities	(112,492)	(97,227)	(100,593)
Net decrease in mortgage-backed securities	(152,264)	(36,193)	(51,223)
Balance at end of year	$516,476	$668,740	$704,933

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed and value of such securities.

The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2016. The stratification of balances is based on stated maturities. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. Securities available for sale are carried at their fair value in the consolidated financial statements and securities held-to-maturity are carried at their amortized cost.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years
		Weighted		Weighted		Weighted	
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized
	Cost	Yield	Cost	Yield	Cost	Yield	Cost
	(Dollars in thousands)						
Securities held-to-maturity							
Bonds and other debt securities:							
Municipal securities	$15,870	1.04%	$-	- %	$-	- %	$21,865
Total bonds and other debt securities	15,870	1.04	-	-	-	-	21,865
Securities available for sale							
Bonds and other debt securities:							
Municipal securities	$-	- %	$1,781	4.86%	$19,430	4.52%	$103,773
Corporate debentures	-	-	-	-	55,000	2.89	55,000
CLO	-	-	-	-	36,919	2.87	48,551
Total bonds and other debt securities	-	-	1,781	4.86	111,349	3.17	207,324
Mutual funds	21,366	1.84	-	-	-	-	-
Equity securities:							
Common stock	-	-	-	-	-	-	1,019
Preferred stock	-	-	-	-	-	-	6,344
Total equity securities	-	-	-	-	-	-	7,363
Mortgage-backed securities:							
REMIC and CMO	-	-	5,073	4.22	7,891	2.99	389,672
GNMA	-	-	-	-	-	-	1,319
FNMA	4	6.00	9,915	3.65	26,268	2.44	73,306
FHLMC	-	-	65	6.41	1,195	4.27	4,118
Total mortgage-backed securities	4	6.00	15,053	3.85	35,354	2.62	468,415
Interest-earning deposits	25,771	0.75	-	-	-	-	-

Total	$63,011	1.19%	$16,834	3.96%	$146,703	3.04%	$704,967

As of December 31,
effectiveness of the
based on the framew
Framework issued b
Treadway Commiss
management has det
financial reporting a
The Company's inte
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assurance that transa
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are being made only
and directors of the
regarding prevention
or disposition of the
the financial stateme
The Company's ind
their auditors' report
unqualified opinion
over financial report

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Report of Independe
The Board of Direct
Greenhill & Co., Inc
We have audited the
condition of Greenh
2012 and 2011, and
comprehensive inco
three years in the pe
statements are the re
Our responsibility is
based on our audits.
We conducted our a
Company Accountin
require that we plan
about whether the fi
An audit includes ex
amounts and disclos
includes assessing th
estimates made by m
financial statement p
reasonable basis for
In our opinion, the f
all material respects
Co., Inc. and subsidi
consolidated results
the three years in the
with U.S. generally
We also have audite
Company Accountin
Inc.'s internal contro
based on criteria esta
issued by the Comm
Commission and our
unqualified opinion
/s/ Ernst & Young L
New York, New Yo
February 22, 2013

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Report of Independe
The Board of Direct
Greenhill & Co., Inc
We have audited Gr
reporting as of Dece
Internal Control — I
Sponsoring Organiz
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assessment of the ef
included in the acco
over Financial Repo
the company's inter
We conducted our a
Company Accountin
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about whether effect
maintained in all ma
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risk that a material w
operating effectivene
performing such oth
circumstances. We b
our opinion.
A company's interna
designed to provide
financial reporting a
purposes in accordan
company's internal
and procedures that
reasonable detail, ac
dispositions of the a
assurance that transa
preparation of financ
accounting principle
are being made only
and directors of the
regarding prevention
or disposition of the
the financial stateme
Because of its inhere
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any evaluation of ef
that controls may be
that the degree of co
deteriorate.
In our opinion, Gree
effective internal co
2012, based on the C

We also have audite
Company Accountin
statements of financ
the related consolida
changes in equity, ar
ended December 31
our report dated Feb
thereon.
/s/ Ernst & Young L
New York, New Yo
February 22, 2013

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Greenhill & Co., Inc
Consolidated Statem
As of December 31,
(in thousands except

Assets
Cash and cash equiv
$7.3 million restricte
2012 and 2011, resp
Advisory fees receiv
doubtful accounts of
at December 31, 201
Other receivables
Property and equipm
depreciation of $54.
December 31, 2012
Other investments
Investments in merc
Goodwill
Deferred tax asset, n
Other assets
Total assets
Liabilities and Equit
Compensation payal
Accounts payable an
Financing liability
Bank loan payable
Deferred tax liability
Total liabilities
Common stock, par
100,000,000 shares a
35,775,557 shares is
and 2011, respective
shares outstanding a
2011, respectively
Contingent convertil
$0.01 per share; 10,0
1,099,877 shares iss
December 31, 2012
Restricted stock unit
Additional paid-in c
Exchangeable shares
issued as of Decemb
and 110,191 shares o
December 31, 2012
Retained earnings
Accumulated other c

Treasury stock, at co
9,024,679 and 7,128
December 31, 2012
Stockholders' equity
Noncontrolling inter
Total equity
Total liabilities and

See accompanying n

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Greenhill & Co., Inc
Consolidated Statem
Years Ended Decem
(in thousands except

Revenues
Advisory revenues
Investment revenues
Total revenues
Expenses
Employee compensa
Occupancy and equi
Depreciation and am
Information services
Professional fees
Travel related expen
Interest expense
Other operating expe
Total expenses
Income before taxes
Provision for taxes
Consolidated net inc
Less: Net income all
noncontrolling inter
Net income allocated
stockholders
Average shares outs
Basic
Diluted
Earnings per share:
Basic
Diluted
Dividends declared a

See accompanying n

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Greenhill & Co., Inc
Consolidated Statem
Years Ended Decem
(in thousands)

Consolidated net inc
Currency translation
Comprehensive inco
Less: Net income all
noncontrolling inter
Comprehensive inco
common stockholde

See accompanying n

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Greenhill & Co., Inc
Consolidated Statem
Years Ended Decem
(in thousands)

Common stock, par
share
Common stock, beg
Common stock issue
Common stock, end
Contingent converti
par value $0.01 per
Contingent converti
beginning of the yea
Contingent converti
issued
Contingent converti
end of the year
Restricted stock unit
Restricted stock unit
year
Restricted stock unit
Restricted stock unit
Restricted stock unit
Additional paid-in c
Additional paid-in c
the year
Common stock issue
Restricted stock unit
Tax benefit from the
restricted stock units
Additional paid-in c
year
Exchangeable share
Exchangeable share
beginning of the yea
Exchangeable share
delivered
Exchangeable share
of the year
Retained earnings
Retained earnings, b
year
Dividends
Net income allocate
stockholders
Retained earnings, e

Accumulated other c
income
Accumulated other c
income (loss), begin
Currency translation
tax
Accumulated other c
income, end of the y
Treasury stock, at co
per share
Treasury stock, begi
Repurchased
Treasury stock, end
Total stockholders' e
Noncontrolling inter
Noncontrolling inter
the year
Net income allocated
interests
Contributions from n
interests
Distributions to nonc
interests
Noncontrolling inter
year
Total equity

See accompanying n

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Greenhill & Co., Inc
Consolidated Statem
Years Ended Decem
(in thousands)

Operating activities:
Consolidated net inc
Adjustments to reco
income to net cash p
activities:
Non-cash items incl
net income:
Depreciation and am
Net investment (gain
Restricted stock unit
common stock issue
Deferred taxes
Deferred gain on sal
banking assets
Changes in operatin
Advisory fees receiv
Due to (from) affilia
Other receivables an
Compensation payab
Accounts payable an
Settlement of restric
Net cash provided b
Investing activities:
Purchases of investm
Greenhill Australia a
cash received
Proceeds from sales
Distributions from in
Financing liability
Purchases of propert
Net cash provided b
activities
Financing activities:
Proceeds from revol
Repayment of revolv
Contributions from n
interests
Distributions to non
Dividends paid
Purchase of treasury
Net tax benefit (cost
restricted stock units
dividend equivalents

Net cash used in fina
Effect of exchange r
and cash equivalents
Net increase (decrea
equivalents
Cash and cash equiv
year
Cash and cash equiv
Supplemental disclo
information:
Cash paid for interes
Cash paid for taxes,

See accompanying n

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Greenhill & Co., Inc
Notes to Consolidate

Note 1 — Organizat
Greenhill & Co., Inc
subsidiaries (collecti
investment bank foc
mergers, acquisition
corporations, partne
acts for clients locat
United States, Unite
Sweden.
The Company's acti
single business segn

- Advisory, which inc acquisitions, financi real estate capital ad
- Investments, which certain merchant ba other investments ar

The Company's who
include Greenhill &
LLP ("GCI"), Green
Canada Ltd. ("GCC
Australia Pty Limite
AB ("GCS").
G&Co is engaged in
G&Co is registered
Commission ("SEC
("FINRA"), and is li
G&Co is also regist
Municipal Securitie
GCI is engaged in in
engaged in investme
subject to regulation
GCJ, GCC and GCS
Japan, Canada and S
GCJ is registered wi
subject to regulation
subject to regulation
Greenhill Australia
and New Zealand an
Australian Securitie
The merchant banki
of and the investmen
Greenhill Capital Pa
II"), Greenhill Capit
Partners, which are
Company acquired a

Partners III ("GCP I

Note 2 — Summary
Basis of Financial In
These consolidated f
accounting principle
GAAP), which requ
regarding future eve
statements and these
compensation accrua
estimates used in pre
reasonable and prud
estimates. Certain re
information to confo
The consolidated fin
consolidated accoun
which the Company
significant inter-com
the accounting prono
interest entities, the
merchant banking fu
interest and control.
these merchant bank
such, the general par
(loss) from the unde
banking funds follov
record all their asset
investment in these r
fair value. The Com
funds since the Com

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partner and limited p
economic interest in
rights to remove the
unaffiliated third-pa
Revenue Recognitio
Advisory Revenues

It is the Company's a
is persuasive eviden
agreed-upon service
the transaction or ev
be substantially com
collection is reasona

The Company recog
acquisitions or finan
the services related t
accordance with the
requirements for rev

The Company recog
fees at the time of th
commitments to a fu
letter. Generally, fee
of capital committed
recognized at each in
committed at each c
closing, revenue is r
capital committed si

While the majority o
conclusion of a trans
substantially all of w
and financing adviso
recognized as adviso
service is rendered.

The Company's clie
Company in the con
net of such client rei
million, $6.5 million
2012, 2011, and 201
Investment Revenue

Investment revenues
investments in certa
investments, (ii) pro
any, and (iii) interes

The Company recog
funds based on its al
losses) reported by s
other investments, in
influence or control
investment positions
value of investments
and can cause period
the Company to mar
If certain financial r
banking fund, the C
overrides at the time
overrides are genera
specified threshold e
behalf of unaffiliated
the profit overrides e
basis throughout the
Company records as
the fund agreements
terminated at that da
deal-by-deal basis b
of each merchant ba
portion of the overri
level is not achieved
repayments as "claw
reserve for potential
of a clawback is pro
reasonably estimated
is more likely than n
revenue in prior peri
be realized and acco
clawback obligation
See "Note 4 — Inve
recognized.
Cash and Cash Equi

F-11

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The Company's cash
deposit with financi
cash.
At December 31, 20
$62.1 million of cas
highly liquid invest
when purchased, to
consist of money ma
2012 and 2011, the
amounted to $4.5 m
approximated fair v
equivalents.
Also included in the
December 31, 2012
million, respectively
for the payout of Gr
respectively). See "N
Contingencies".
The Company maint
institutions with hig
Company is not exp
position of the depo
Advisory Fees Rece
Receivables are stat
estimate for the allo
Company by utilizin
the client's creditwo
$0.1 million for eac
The Company did n
December 31, 2010.
Included in the advi
and 2011 were $29.
related to private eq
which are generally
Included as a comp
statements of incom
engagements of $1.
ended December 31
Credit risk related t
number of clients lo
controls credit risk t
but does not require
Investments
The Company's inve
under the equity me
proportionate share
banking fund's net a
investments in priva
partner of the fund a

the pricing of other s
of securities of other
purchase multiples p
original purchase pri
results and other qua
applied to the funds'
liquidity and other tr
securities are valued
or contractual restric
valuations as well as
investments in priva
values that would ha
existed. The values a
consolidated stateme
fair value at the end
conditions, stock ma
changes in the estim
period.

Goodwill

Goodwill is the cost
acquisition date. The
annually. An impair
operating unit is less
calculated as the dif
and its carrying valu
Goodwill is translate
periods presented in
currency translation.
foreign currency tra

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adjustment, which is
income in the conso
Restricted Stock Un
The Company accou
which the fair value
future service requir
generally amortized
grant. Compensation
value of the Compan
Company expenses
recorded within equ
common stock and a
records as treasury s
employees in settlem
restricted stock units
payments, net of est
units as a dividend p
Earnings per Share
The Company calcu
income allocated to
number of shares ou
EPS includes the we
due to the vesting of
the contingently issu
performance conting
of the impact of the
calculation of EPS.
Diluted EPS include
effect of the commo
for which future serv
underlying common
shares issuable upon
calculation of dilute
expected to be issue
by the Company wit
average market clos
Earnings per Share"
Provision for Taxes
The Company accou
guidance for income
or expenses on the te
and tax bases of its a
The Company follow
measuring, presentin
tax positions taken o
Income tax expense
adjustments made fo
uncertain tax positio
expense related to u

guidance.
Deferred tax assets a
attributable to differ
amounts of existing
Deferred tax assets a
expected to be recov
liabilities of a chang
of change. Managem
determining tax bene
Business Combinati
Business combinatio
for business combin
measure the assets a
combination. Assets
combination are valu
acquisition. Any ass
Foreign Currency Tr
Assets and liabilities
translated at rates of
presented in accorda
currency translation.
have been translated
Translation gains an
translation adjustme
comprehensive inco
equity. Foreign curr
consolidated stateme

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Financial Instrumen
The Company accou
accordance with acc
disclosures which es
inputs to valuation t
gives the highest pri
for identical assets o
priority to unobserva
of the fair value hier
Basis of Fair Value
Level 1 – Unadjuste
the measurement da
Level 2 – Quoted pr
instruments for whic
or indirectly; and
Level 3 – Prices or v
to the fair value mea
A financial instrume
the lowest level of a
measurement. In det
performs an analysis
disclosures. At each
the fair value measu
instruments which t
transparency are cla
recognized as of the
Fair Value of Other
The Company believ
instruments presente
condition approxima
nature and generally
would be categorize
Derivative Instrume
The Company accou
for derivative instru
guidance, the Comp
the period recorded
of income. The Iridi
common shares in Ju
instruments.
Noncontrolling Inte
The Company recor
entities as equity in
Additionally, the co
income allocated to
stockholders.
The portion of the c
of the merchant ban
noncontrolling inter

Banking Funds”.
Property and Equipr
Property and equipn
and amortization. De
method over the life
improvements is cor
of the life of the asse
lives of the Compan
Aircraft – 7 years
Equipment – 5 years
Furniture and fixture
Leasehold improven
term

Note 3 — Acquisitio

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On April 1, 2010, th
Partnership Pty Lim
Australia. See "Note
“Acquisition”) in ex
stock, with a fair val
(ii) 1,099,877 shares
(“Performance Stock
will convert to share
659,926 and 439,95
closing, respectively
revenue targets are r
for each such period
respectively. The fai
Acquisition was $47
equity. As of Decem
was achieved and th
average number of s
In addition, the Com
stock units (“Perform
December 31, 2012.
62,690 and 41,794 s
closing, respectively
targets as the Perform
Performance RSUs v
revenue targets will
will be amortized ov
those revenue target
canceled and no amo
it probable that the r
achieved. For the ye
Company expensed
the Performance RS
December 31, 2010.
Share".
The Acquisition has
accounting and the r
included in the cons
acquisition. The Cor
Acquisition which w
the consolidated stat
2010.
The total purchase p
allocated to the asse
estimated fair values
follows (in thousand
Assets acquired and

Assets:
Cash

Other current assets
Property and equipn
Deferred compensat
Deferred tax assets
Identifiable intangib
Goodwill
Total assets
Liabilities:
Other current liabilit
Deferred compensat
Due to affiliates
Total liabilities
Purchase price

The excess of the pu
has been recorded as
$128.0 million (AUS
Acquisition. Goodw
the end of each perio
The fair value of the
of the trade name, th
that existed at the tin
based, in part, on a v
or cost approach, as
the consolidated stat
value ascribed to the

F-15

amortized on a straig
of each asset over pe
years ended Decemb
$2.9 million, $3.5 m
expense in respect o
In addition to the eq
terms of the sale agr
non-founding partne
accrued prior to the
$7.6 million).
In connection with t
under Caliburn's def
corresponding amou
(AUS $12.3 million
compensation was d
respective employee
mutual fund investm
Greenhill Australia,
7 year period ending
and 2011, distributio
million (AUS $2.3 n
fund investments in
assets relating to this
statements of financ
equivalents and othe
relating to the plan c
2012 and 2011, resp
statements of financ
payable. Subsequent
future participation i
Accounting Policies
Investments — Othe
The Company grant
of Greenhill Austral
ratably over three to
employment and are
Set forth below is th
operations for the ye
forma results of oper
the historical results
if it had occurred on
actual results of Cali
For the period April
Australia's results w
Company.
The unaudited pro fo
what the Company's
the Acquisition occu
Company's results o

results may vary cor
Company's control.

Revenues
Income before taxes
Net income allocated
Diluted earnings per

The pro forma result
compensation expen
expense to revenue f
professional fees of
the Acquisition in th
recording of income
adjustments before t
calculation of pro fo
contingent convertib
Caliburn in connecti
converted in aggrega
Greenhill Australia a
See "Note 10 — Ear

Note 4 — Investmer
Merchant Banking F
In December 2009, t
merchant banking bu
merchant banking fu
GCP Capital Partner

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(“GCP Capital”), an
retained a 76% inter
agreement, the gene
to GCP II LLC their
funds during a transi
Effective January 1,
banking funds.
As consideration for
Company received 2
$24.4 million. The C
and deferred $2.6 m
and trademark licens
period ending in 201
2010, deferred gains
recognized, respecti
During 2010, the Co
management of the r
However, during tha
interest in the first $
accordingly, the exc
incurred for compen
accrued to the benef
interest expense, wh
stockholders.
Prior to 2011, the Co
paid by the merchan
portfolio companies
receives any manage
merchant banking fu
In 2011, the Compan
II and its affiliated f
principals of GCP C
million, which repre
interests. The transa
right, exercisable in
each of the capital a
companies of GCP I
subject to adjustmen
In June 2012, the pu
to one of the specifi
Put Options to $15.6
which were not asso
sale in accordance w
The GCP II capital a
not meet the require
secured borrowings
asset transfers.
At December 31, 20
recorded these capit

of investments in me
of financial conditio
loss related to the ca
consolidated stateme
corresponding liabil
included as a financi
condition. For the ye
Company recorded l
Options of $2.0 mill
included as a compo
statements of incom
purchasers of the Pu
repurchase their inte
loss was recognized
2012, the investmen
financial condition i
interests of $9.7 mil
Additionally, in 201
GSAVP and its affil
purchase price of $4
value of such capital
related to GSAVP h
accounting guidance
Prior to 2011, the Co
banking funds. In ad
affiliated funds, the
controlled. In conjun
effective in 2011, th
partner of GCP Euro
sale of its capital int
of the general partne
party.

In 2012, the Compa
sponsored merchant
GCP Europe for pro
approximately 90%
$3.4 million as resul

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As of December 31,
of the general partne
each such general pa
The Company contr
funds where it acts a
funds a portion of th
The Company recog
funds at the time cer
did not recognize an
2012 or 2011. For th
recognized $0.2 mil

The carrying value c
funds are as follows

Investment in GCP I
Investment in GCP I
Investment in GCP I
Investment in GCP I
Investment in GCP I
Investment in other
Total investments in
The investment in G
and 2011, respective
general partner of G
at December 31, 201
the managing genera
partners of its genera
Investments in other
investment in Barrov
committed $5.0 mill
of the Company's co
time prior to the exp
During 2010, the exe
fee revenue over the
operating expenses,
Capital, is presented
During 2011 and 20
working capital adju
respectively, to GCF
during 2012.
Approximately $0.3
related to profit over
funds at December 3
decrease depending
payable, subject to c

The Company comm
in total remains unfu
may be drawn throu
commitment amoun
follow-on investmen
Other Investments
The Company has o
certain deferred com
Australia. The Comp

Iridium common sto
Deferred compensat
Total other investme

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Iridium
At December 31, 20
common stock (NAS
and had fully dilutec
2011, the Company
exchange for 880,00
2011, the Company
and had a fully dilut
In October 2011, the
Iridium over a perio
sold 3,850,000 share
per share of $7.91. I
at an average price p
At December 31, 20
Iridium common sto
Company's investm
the Company does n
Iridium.
Deferred compensat
In connection with t
under Caliburn's def
of certain employees
at the election of eac
investments. These i
Greenhill Australia
relating to this plan
financial condition a
other investments. T
has been recorded or
a component of com
Company discontinu
Acquisition".
Investment revenues
The Company's inve

Management fees
Net realized and unr
on investments in m
Net realized and unr
on investment in Irid
Net realized and unr
banking profit overr
Other realized and u
income
Sale of certain merc
Interest income

Total investment rev
Fair Value Hierarch
The following tables
fair value on a recur
entirety based on the
value measurement.
investments in the fa
ended December 31
Assets Measured at
2012

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Assets
Iridium common sto
Deferred compensat
plan investments
Total investments
Assets Measured at
2011

Assets
Iridium common sto
Deferred compensat
plan investments
Total investments
Level 3 Gains and L
There were no Leve
2012.
In June 2011, the Co
shares of Iridium co
classified as a Level
modeling. Selected i
of the warrants, incl
expiration date; and
trading price of Iridi
various equity volati
market indices. Upo
market prices and cl
The following table
the Company's Leve
2011.

Begi
Bala
Janu
2011

	(in th
Assets	
Iridium $11.50 Warrants	$7,2
Total investments	$7,2

Note 5 — Goodwill
Goodwill consists of

Balance, January 1	
Foreign currency tra	
Total goodwill	

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The Company perfo
frequently if circum
The Company has re
determined that the
Accordingly, no goo
years ended Decemb

Note 6 — Related P
At December 31, 20
parties. At Decembe
to the affiliated merc
operating expenses,
expenses on the con
In conjunction with
business, the Compa
a period of three to f
also subleases airpla
of the Company. Th
million, $1.5 million
2012, 2011 and 201
equipment rental on
2011 and 2010, the
respectively, for the
Company.

Note 7 — Property
Property and equipm

Aircraft
Equipment
Furniture and fixture
Leasehold improven

Less accumulated de
Total property and e

Note 8 — Revolving
At December 31, 20
facility from a U.S.
needs and for other
facility has historica
renewal in April 201
$45.0 million, with
was reduced to the h
resulted in a reducti

The revolving loan f
the Company's inve
cash distributions fr
a prohibition on the
prior approval of the
certain financial and
borrowings outstand
approximately $28.4
December 31, 2012
rate was 3.5% for th
years ended Decemb
Company was comp

Note 9 — Equity
Dividends declared
ended December 31
equivalents of $5.6
2011 and 2010, resp
event a restricted st
of the dividend equi
Company. For the y
$117,241, $360,769
were paid back to th
In connection with t
Company issued 1,0
1,099,877 shares of
pay dividends and w

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the Company's com
During 2012, the pe
Performance Stock v
shares of Performan
revenue target relate
achieved, the remain
Acquisition" and "N
During 2012, 654,61
common stock of wh
181,820 shares at an
with the payment of
employees in settlem
the Company repurc
of its common stock
During 2011, 654,00
common stock of wh
283,774 shares at an
with the payment of
employees in settlem
the Company repurc
of its common stock

Note 10 — Earnings
The computations of

Numerator for basic
EPS — net income a
common stockholde
Denominator for bas
weighted average nu
Add — dilutive effe
Weighted average n
incremental shares is
restricted stock units
Denominator for dil
weighted average nu
and dilutive potentia
Earnings per share:
Basic
Diluted
The Performance St
stock in tranches of
fifth anniversary of t
revenue targets are a
achieved, the Perfor

2012, the performan
Stock was achieved.
potential shares incl
Stock to common sh
2012. The weighted
include the Performa
which will be evalua
of the Acquisition. S

Note 11 — Retireme
In the U.S., the Com
(the "Retirement Pla
Retirement Plan pro
with Section 401(k)
discretionary profit s
Participants may con
defined. The Compa
per employee. The C
and $0.2 million for
ended December 31
million and $0.2 mil
Plan included in con
respectively.
GCI also operates a
The assets of the pen
administered fund. F
2010, GCI incurred
$0.7 million, respect
no amounts related t
pension fund include

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Greenhill Australia i
compulsory superan
rate of 9%. Superann
retirement benefits a
the working life plus
Greenhill Australia i
$0.6 million and $0.
2011 and 2010, resp
no amounts related t
contribution plan inc

Note 12 — Restricte
The Company has ac
employees and allow
Under the Company
to a future payment
to employees, direct
the Compensation C
vest ratably over a p
of the grant date or i
the extent the restric
is paid on the comm
holders of the restric
employment is term
under the plan are fo
dividend equivalent
unvested for accoun
Company.
The Company issues
incentive plan, prim
compensation agreem
Company may settle
of common stock to
awards are settled in
common stock based
settled share-based a
at fair value at each
As of December 31,
units outstanding of
which were unvested
delivery of the under
December 31, 2012,
compensation expen
forfeitures, of $54.2
respectively.
The weighted-averag
granted during 2012
respectively. As of D
units compensation

unrecognized compe
weighted average pe
In 2010, 141,960 res
were settled in cash,
million of which wa
of restricted stock av
2011 other than thos
liabilities. See "Note
The activity related

Outstanding, Januar
Granted
Delivered
Forfeited (2)
Outstanding,
December 31,

---

(1) Excludes 1,011,6
December 31, 20

(2) Included in the 2
settled in cash as
settled in cash in

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Note 13 — Commitm

The Company has en
non-cancellable oper
through 2021.

As of December 31,
rental payments requ

2013
2014
2015
2016
2017
Thereafter
Total[1]

(1) Minimum future
and have not bee
year from 2013 to
in our New York
through Decembe
may be terminate

In addition, the Com
for office equipment

Net rent expense for
December 31, 2012,
$14.1 million and $1

Diversified financial
the Company to secu
December 31, 2012
cash held on deposit
been drawn under an
Significant Account

At December 31, 20
million and $0.1 mil
See "Note 4 – Inves

The Company is fro
incidental to the ord
believe any such pro
results of operations

Note 14 — Income T

The Company is sub
income taxes.

The components of t
consolidated stateme

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Current taxes:
U.S. federal
State and local
Foreign
Total current tax exp
Deferred taxes:
U.S. federal
State and local
Foreign
Total deferred tax (b
Total tax expense

The Company provi
rate to the extent suc
not plan to permaner
affiliates. In 2012, th
liabilities, net of cre
this policy.
Deferred income tax
between the financia
well as operating los
using the enacted tax
differences are expe
Company's net defer

Deferred tax assets:
Compensation and b
Depreciation and am
Unrealized loss on in
Operating loss carry
Capital loss carryfor
Foreign tax credit ca
Other financial accru
Valuation allowance
Total deferred tax as
Deferred tax liabiliti
Unrealized gain on i
Depreciation and am
Cumulative translati
Intangible asset acqu
Repatriation of forei
Other financial accru

Total deferred tax li
Net deferred tax ass

Based on the Compa
taxable income in th
tax asset, which rela
book purposes but n
offsets to (i) the real
taxable income.

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The Company's defe
principally to losses
profitable in prior ye
assessing the need fo
foreign jurisdiction s
future taxable incom
available informatio
than not that it will r
carryforwards in fut
established for these
Company had opera
totaled $11.4 million
and longer.
Due to the Company
normally booked thr
time as the benefit is
paid. As of Decembe
been decreased by $
these benefits in its f
The Company utilize
December 31, 2012.
the United Kingdom
Europe in December
investment in Iridium
likely than not the C
when it is sold as pa
- Other Investments"
the United Kingdom
capital gains in the s
Kingdom may be ca
Company no longer
United Kingdom tha
has established valu
the tax years ending
the deferred tax asse
until such time as it
benefit of this deferr
The Company has U
of December 31, 20
earnings from foreig
earnings as of Decem
additional federal ta
foreign earnings in t
effect of future repat
December 31, 2012
allowances of $5.7 m
portion of its U.S. fo
utilized until it can d
of this deferred tax a

carryforwards will e
Any gain or loss res
foreign affiliates is i
adjustment incorpor
net of tax, in the con
no income taxes rec
consolidated statem
or December 31, 20
expenses in the cons
taxes payable of $15
as of December 31,
The Company is sub
states and municipal
the Company operat
they apply to the tax
Management must m
position will be sust
based on the technic
business, the Compa
jurisdictions in an op
December 31, 2012,
in its tax provision r
The Company recog
when it is more likel
examination by the r
of the position. A po
largest amount of be
settlement. A liabilit
taken in a tax return
The Company perfo
determined that ther
liabilities. Also, whe
interest and penaltie
expenses in the cons
A reconciliation of t
the Company's effec

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U.S. statutory tax ra
Increase related to st
net of U.S. income t
Benefits and taxes re
operations
Valuation allowance
Sale of merchant ba
Other
Effective income tax
noncontrolling inter
Noncontrolling inter
Effective income tax
noncontrolling inter

Note 15 — Regulato
Certain subsidiaries
requirements in the
other jurisdictions,
net capital requirem
G&Co is subject to
Rule 15c3-1 (the "R
minimum net capita
requires G&Co to m
$5,000 or 1/15 of ag
December 31, 2012
$7.2 million, respect
million and $6.3 mil
net capital ratio was
2011, respectively.
G&Co are subject to
Rule.
GCI and GCE are su
Australia is subject
subject to certain ca
As of December 31,
our other regulated
adequacy requireme

Note 16 — Busines
The Company's acti
single business seg
Advisory, which inc
• acquisitions, financ
real estate capital ad
Investments, which
• certain merchant ba
income.

As described in “No
December 31, 2010,
banking funds. In re
the sources of its rev
other investment rev
other financial data
and loss or assets by
The Company has p
earned from clients
client’s transaction
represented approxi
revenues for the yea
respectively.
In 2012, 2011 and 2
more than 10% of to
gain on an investme
2012, 2011 or 2010.
Since the financial m
manages its busines
as whole, not by geo
geographic regions
locations in which th

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The following table
geographic region, a
accounts and transac

Total revenues
North America
Europe
Australia
Asia
Total
Income (loss) before
North America
Europe
Australia
Asia
Total
Total assets
North America
Europe
Australia
Asia
Total

Note 17 — Subsequ
The Company evalu
financial statements
On January 23, 2013
quarterly dividend o
March 20, 2013 to t

Supplemental Financ
The following repre
the years ended Dec
were prepared in acc
principles and reflec
management, necess

Total revenues
Total expenses
Income before taxes
Provision for taxes

Net income allocate
stockholders
Earnings per share:
Basic
Diluted
Dividends declared

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Total revenues
Total expenses
Income (loss) before
Provision (benefit) f
Net income allocated
stockholders
Earnings (loss) per s
Basic
Diluted
Dividends declared

(b). Exhibits

EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Ur
2.1	Reorganiza Co. Holdin the Registr (No. 333-1
2.2	Purchase A JPMorgan IV LLC, JI Offshore In Equity Inve Constellati Energy Nu 1, LLC, GC LLC, GCP LLC, Gree Managing (incorporat Current Re
3.1	Amended a (incorporat Current Re
3.2	Amended a Exhibit 3.2 Form S-1/A
3.3	Certificate Series A-1 (incorporat Report on I
3.4	Certificate Series A-2 (incorporat Report on I
4.1	Form of Co to Exhibit 4 Form S-1/A
10.1	Form of Gr (incorporat registration April 30, 2
10.2	Form of Gr and Pledge Exhibit 10. Form S-1/A
10.4	Form of U. (incorporat

	registration April 20, 2
10.5	Equity Ince to the Regi (No. 333-1
10.6	Form of In to Exhibit Form S-1/A
10.7	Tax Indem Exhibit 10. Form S-1/A
10.8	Loan Agree 2003 betwe Holdings, I Registrant' (No. 333-1
10.9	Security A Greenhill F (incorporat registration April 20, 2
10.10	Agreement Park, L.P. a to Exhibit Form S-1/A
10.11	First Amer 300 Park, L reference t statement c Form S-1/A
10.12	Agreement Park, L.P. a reference t statement c 2004).
10.13	Assignmen between M (incorporat registration April 30, 2

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10.14	Sublease Ag Aviation Co (incorporate registration April 30, 20
10.15	Agreement June 29, 200 Registrant's (No. 333-11
10.16	GCP, LLC June 27, 200 Registrant's (No. 333-11
10.17	Amended ar Greenhill Ca by reference statement or 2004).
10.18	Amendment Partnership (incorporate registration April 30, 20
10.19	Amended ar GCP Manag (incorporate registration April 30, 20
10.20	Form of Ass January 1, 2 the Registra (No. 333-11
10.21	Form of Gre Stock Unit (incorporate Quarterly R September 3
10.22	Form of Gre Stock Unit (incorporate Quarterly R September 3
10.23	Form of Gre Stock Unit (incorporate registration April 30, 20
10.24	Form of Gre Stock Unit

	(incorporate registration April 30, 20
10.25	Amended ar Greenhill Ca March 31, 2 Registrant's
10.26	Amended ar GCP Manag (incorporate Current Rep
10.27	Form of Ag Pickering, H (incorporate Quarterly R 2005).
10.28	Form of Gre Award Noti reference to Form 10-Q
10.29	Form of Ser Agreement Registrant's September 3
10.30	Form of Ag House, Berk Limited, Gre Inc. and Un (incorporate Annual Rep December 3
10.31	Loan Agree First Repub reference to Form 10-K
10.32	Form of Ag (Associates) the Registra ended Marc
10.33	Form of Ag (incorporate Quarterly R 2006).

10.34	Form of Firs Republic Ba reference to Form 10-K
10.35	Form of Sec Republic Ba reference to Form 10-Q
10.36	Form of Thi Republic Ba reference to Form 10-Q
10.37	Form of Thi Advisory Fe and First Re Exhibit 10.3 for the perio
10.38	Form of Am for Greenhil (incorporate Quarterly R 2007).
10.39	Form of Am for GCP Eu reference to Form 10-Q
10.40	Form of Fou Republic Ba reference to Form 10-K
10.41	Form of Thi Advisory Fe and First Re Exhibit 10.4 the year end
10.42	Form of Rea Third-Party Fees) by and Republic Ba Registrant's December 3
10.43	Amended an reference to Form 10-Q
10.44	Amended an reference to Form 10-Q
10.45	Form of Gre Award Noti

	(incorporate Quarterly R 2009).
10.46	Form of Gre Award Noti by reference on Form 10-
10.47	Form of Gre Award Noti (incorporate Quarterly R 2009).
10.48	Lease betwe dated June 1 the Registra
10.49	Memorandu Registrant, I by reference October 29,
10.50	Transaction Registrant, c Frank Potto Form 8-K fi
10.51	Share Sale A Co., Inc., Ca Pty Ltd, Bal Ron Malek Registrant's
10.52	Form of Sev Republic Ba reference to Form 10-Q
10.53	Form of Sec Greenhill & reference to Form 10-Q

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10.54	Form of Eig Republic Ba reference to Form 10-K
10.55	Ninth Modi between Fir (incorporate Quarterly R 2011).
10.56	Reaffirmati July 15, 201 Capital Part to Registran ended June
10.57	Renewal an 2012, betwe (incorporate Quarterly R 2012).
10.58*	Modificatio between Fir
10.59*	Employmen of May 11, Partnership
10.60*	Employmen of May 11,
10.61*	Employmen of May 11, & Co., Inc.
21.1*	List of Subs
23.1*	Consent of
31.1**	Certificatio Rule 13a-14 1934, as Ad Act of 2002
31.2**	Certificatio Rule 13a-14 1934, as Ad Act of 2002
32.1**	Certificatio Section 135 Sarbanes-O
32.2**	Certificatio Section 135 Sarbanes-O
101**	Interactive

* Filed herewith.

** This informatio
Sections 11 and
Section 18 of th

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SIGNATURES

Pursuant to the requ
Exchange Act of 19
Report to be signed
authorized.
Dated: February 22,

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Pursuant to the requ
amended, this Repor
behalf of the Registr

Signature
/s/ ROBERT F.
GREENHILL

Robert F. Greenhill

/s/ SCOTT L. BOK

Scott L. Bok

/s/
CHRISTOPHER T.
GRUBB

Christopher T. Grub

/s/ HAROLD J.
RODRIGUEZ, JR.
Harold J. Rodriguez
Jr.

/s/ ROBERT T.
BLAKELY

Robert T. Blakely

/s/ JOHN C.
DANFORTH

John C. Danforth

/s/ STEVEN F.
GOLDSTONE

Steven F. Goldstone

/s/ STEPHEN L. KE

Stephen L. Key