PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
August 09, 2018

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

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-31566
PROVIDENT FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	42-1547151
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
239 Washington Street, Jersey City, New Jersey	07302
(Address of Principal Executive Offices)	(Zip Code)

(732) 590-9200
(Registrant’s Telephone Number, Including Area Code)

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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý 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 twelve months (or for such shorter period that the Registrant was required to submit and post such files). YES ý NO ¨

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

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨
		Emerging Growth Company	¨

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

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

As of August 1, 2018 there were 83,209,293 shares issued and 67,090,176 shares outstanding of the Registrant's Common Stock, par value $0.01 per share, including 267,261 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

PROVIDENT FINANCIAL SERVICES, INC.
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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.
PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 2018 (Unaudited) and December 31, 2017
(Dollars in Thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$91,192	$139,557
Short-term investments	50,761	51,277
Total cash and cash equivalents	141,953	190,834
Available for sale debt securities, at fair value	1,052,534	1,037,154
Held to maturity debt securities (fair value of $472,185 at June 30, 2018 (unaudited) and $485,039 at December 31, 2017)	473,825	477,652
Equity securities, at fair value	687	658
Federal Home Loan Bank stock	76,772	81,184
Loans	7,253,242	7,325,718
Less allowance for loan losses	58,819	60,195
Net loans	7,194,423	7,265,523
Foreclosed assets, net	6,537	6,864
Banking premises and equipment, net	60,348	63,185
Accrued interest receivable	29,735	29,646
Intangible assets	419,180	420,290
Bank-owned life insurance	192,082	189,525
Other assets	84,836	82,759
Total assets	$9,732,912	$9,845,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$4,953,994	$4,996,345
Savings deposits	1,070,397	1,083,012
Certificates of deposit of $100,000 or more	325,653	316,074
Other time deposits	323,905	318,735
Total deposits	6,673,949	6,714,166
Mortgage escrow deposits	30,106	25,933
Borrowed funds	1,641,539	1,742,514
Other liabilities	76,056	64,000
Total liabilities	8,421,650	8,546,613
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 66,780,853 shares outstanding at June 30, 2018 and 66,535,017 outstanding at December 31, 2017	832	832
Additional paid-in capital	1,017,256	1,012,908
Retained earnings	606,423	586,132
Accumulated other comprehensive loss	(19,912)	(7,465)
Treasury stock	(260,908)	(259,907)

Unallocated common stock held by the Employee Stock Ownership Plan	(32,429)	(33,839)
Common stock acquired by the Directors' Deferred Fee Plan	(4,840)	(5,175)
Deferred compensation – Directors' Deferred Fee Plan	4,840	5,175
Total stockholders' equity	1,311,262	1,298,661
Total liabilities and stockholders' equity	$9,732,912	$9,845,274

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Income
Three and six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest income:				
Real estate secured loans	$52,756	$ 47,009	$104,266	$ 93,020
Commercial loans	19,350	18,100	38,476	34,920
Consumer loans	4,945	5,196	9,850	10,210
Available for sale debt securities, equity securities and Federal Home Loan Bank Stock	7,682	6,548	14,933	13,111
Held to maturity debt securities	3,154	3,292	6,298	6,540
Deposits, Federal funds sold and other short-term investments	428	298	823	555
Total interest income	88,315	80,443	174,646	158,356
Interest expense:				
Deposits	6,996	4,653	13,231	9,105
Borrowed funds	7,039	6,735	13,858	13,161
Total interest expense	14,035	11,388	27,089	22,266
Net interest income	74,280	69,055	147,557	136,090
Provision for loan losses	15,500	1,700	20,900	3,200
Net interest income after provision for loan losses	58,780	67,355	126,657	132,890
Non-interest income:				
Fees	6,612	7,255	13,251	13,260
Wealth management income	4,602	4,509	9,002	8,722
Bank-owned life insurance	1,293	2,549	2,557	3,938
Net gain on securities transactions	—	11	1	11
Other income	1,330	495	2,333	1,353
Total non-interest income	13,837	14,819	27,144	27,284
Non-interest expense:				
Compensation and employee benefits	27,983	26,910	55,852	53,758
Net occupancy expense	6,383	6,195	13,128	13,150
Data processing expense	3,626	3,531	7,232	6,988
FDIC insurance	900	999	1,953	2,098
Amortization of intangibles	546	695	1,116	1,447
Advertising and promotion expense	847	945	1,814	1,802
Other operating expenses	8,521	8,065	14,621	14,221
Total non-interest expense	48,806	47,340	95,716	93,464
Income before income tax expense	23,811	34,834	58,085	66,710
Income tax expense	4,568	10,451	10,929	18,819
Net income	$19,243	$ 24,383	$47,156	$ 47,891
Basic earnings per share	$0.30	$ 0.38	$0.73	$ 0.75
Weighted average basic shares outstanding	64,911,916	64,357,684	64,840,843	64,263,065
Diluted earnings per share	$0.30	$ 0.38	$0.73	$ 0.74
Weighted average diluted shares outstanding	65,099,603	64,541,071	65,024,917	64,455,873

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Three and six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$19,243	$24,383	$47,156	$47,891
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized (losses) gains arising during the period	(3,438)	1,228	(13,077)	1,999
Reclassification adjustment for gains included in net income	—	—	—	—
Total	(3,438)	1,228	(13,077)	1,999
Unrealized gains (losses) on derivatives	148	(3)	678	52
Amortization related to post-retirement obligations	74	37	136	69
Total other comprehensive (loss) income	(3,216)	1,262	(12,263)	2,120
Total comprehensive income	$16,027	$25,645	$34,893	$50,011

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2016	$832	$1,005,777	$550,768	$(3,397)	$(264,221)	$(37,978)	$(5,846)	$5,846	$1,251,781
Net income	—	—	47,891	—	—	—	—	—	47,891
Other comprehensive income, net of tax	—	—	—	2,120	—	—	—	—	2,120
Cash dividends paid	—	—	(25,309)	—	—	—	—	—	(25,309)
Distributions from DDFP	—	114	—	—	—	—	335	(335)	114
Purchases of treasury stock	—	—	—	—	(443)	—	—	—	(443)
Purchase of employee restricted shares to fund statutory tax withholding	—	—	—	—	(709)	—	—	—	(709)
Shares issued dividend reinvestment plan	—	284	—	—	626	—	—	—	910
Stock option exercises	—	(1,017)	—	—	3,532	—	—	—	2,515
Allocation of ESOP shares	—	710	—	—	—	1,410	—	—	2,120
Allocation of SAP shares	—	2,514	—	—	—	—	—	—	2,514
Allocation of stock options	—	97	—	—	—	—	—	—	97
Balance at June 30, 2017	$832	$1,008,479	$573,350	$(1,277)	$(261,215)	$(36,568)	$(5,511)	$5,511	$1,283,601

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six months ended June 30, 2018 and 2017 (Unaudited) (Continued)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2017	$832	$1,012,908	$586,132	$(7,465)	$(259,907)	$(33,839)	$(5,175)	$5,175	$1,298,661
Net income	—	—	47,156	—	—	—	—	—	47,156
Other comprehensive loss, net of tax	—	—	—	(12,263)	—	—	—	—	(12,263)
Cash dividends paid	—	—	(27,049)	—	—	—	—	—	(27,049)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-01	—	—	184	(184)	—	—	—	—	—
Distributions from DDFP	—	81	—	—	—	—	335	(335)	81
Purchases of treasury stock	—	—	—	—	—	—	—	—	—
Purchase of employee restricted shares to fund statutory tax withholding	—		—	—	(1,847)	—	—	—	(1,847)
Shares issued dividend reinvestment plan	—	305	—	—	554	—	—	—	859
Stock option exercises	—	(85)	—	—	292	—	—	—	207
Allocation of ESOP shares	—	795	—	—	—	1,410	—	—	2,205
Allocation of SAP shares	—	3,159	—	—	—	—	—	—	3,159
	—	93	—	—	—	—	—	—	93

Allocation of stock options									
Balance at June 30, 2018	$832	$1,017,256	$606,423	$(19,912)	$(260,908)	$(32,429)	$(4,840)	$4,840	$1,311,262

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$47,156	$47,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	5,092	5,971
Provision for loan losses	20,900	3,200
Deferred tax expense	(22,111)	840
Income on Bank-owned life insurance	(2,557)	(3,938)
Net amortization of premiums and discounts on securities	4,458	4,911
Accretion of net deferred loan fees	(2,404)	(2,422)
Amortization of premiums on purchased loans, net	405	516
Net increase in loans originated for sale	(4,545)	(13,752)
Proceeds from sales of loans originated for sale	5,111	—
Proceeds from sales and paydowns of foreclosed assets	2,063	3,540
ESOP expense	2,205	2,120
Allocation of stock award shares	3,159	2,514
Allocation of stock options	93	97
Net gain on sale of loans	(566)	(348)
Net gain on securities transactions	(1)	(11)
Net gain on sale of premises and equipment	(25)	—
Net gain on sale of foreclosed assets	(559)	(501)
Decrease (increase) in accrued interest receivable	89	(8)
Decrease (increase) in other assets	3,223	(3,723)
Increase (decrease) in other liabilities	12,056	(6,674)
Net cash provided by operating activities	73,242	40,223
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of held to maturity debt securities	24,997	25,638
Purchases of held to maturity debt securities	(22,470)	(31,572)
Proceeds from maturities, calls and paydowns of available for sale debt securities	101,691	100,502
Purchases of available for sale debt securities	(138,020)	(99,268)
Proceeds from redemption of Federal Home Loan Bank stock	75,655	57,658
Purchases of Federal Home Loan Bank stock	(71,243)	(60,881)
Purchases of loans	(1,344)	—
Net decrease (increase) in loans	74,574	(13,922)
Proceeds from sales of premises and equipment	25	—
Purchases of premises and equipment	(1,139)	(1,108)
Net cash provided by (used in) investing activities	42,726	(22,953)
Cash flows from financing activities:		
Net decrease in deposits	(40,217)	(53,092)
Increase in mortgage escrow deposits	4,173	4,489
Cash dividends paid to stockholders	(27,049)	(25,309)
Shares issued through the dividend reinvestment plan	859	910

Purchases of treasury stock	—	(443)
Purchase of employee restricted shares to fund statutory tax withholding	(1,847)	(709)

	Six months ended June 30,	
	2018	2017
Stock options exercised	207	2,515
Proceeds from long-term borrowings	525,000	171,980
Payments on long-term borrowings	(410,834)	(202,019)
Net (decrease) increase in short-term borrowings	(215,141)	93,513
Net cash used in financing activities	(164,849)	(8,165)
Net (decrease) increase in cash and cash equivalents	(48,881)	9,105
Cash and cash equivalents at beginning of period	190,834	144,297
Cash and cash equivalents at end of period	$141,953	$153,402
Cash paid during the period for:		
Interest on deposits and borrowings	$26,925	$22,422
Income taxes	$4,128	$15,491
Non-cash investing activities:		
Transfer of loans receivable to foreclosed assets	$1,245	$2,019

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Summary of Significant Accounting Policies
A. Basis of Financial Statement Presentation
The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly owned subsidiary, Provident Bank (the "Bank," together with Provident Financial Services, Inc., the "Company").
In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and the consolidated statements of income for the periods presented. Actual results could differ from these estimates. The allowance for loan losses, the valuation of securities available for sale and the valuation of deferred tax assets are material estimates that are particularly susceptible to near-term change.
The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results of operations that may be expected for all of 2018.
Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.
These unaudited consolidated financial statements should be read in conjunction with the December 31, 2017 Annual Report to Stockholders on Form 10-K.
B. Earnings Per Share
The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three and six months ended June 30, 2018 and 2017 (dollars in thousands, except per share amounts):

	Three months ended June 30,					
	2018			2017		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$19,243			$24,383		
Basic earnings per share:						
Income available to common stockholders	$19,243	64,911,919	$ 0.30	$24,383	64,357,684	$ 0.38
Dilutive shares		187,684			183,387	
Diluted earnings per share:						
Income available to common stockholders	$19,243	65,099,603	$ 0.30	$24,383	64,541,071	$ 0.38

	Six months ended June 30,					
	2018			2017		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$47,156			$47,891		
Basic earnings per share:						
Income available to common stockholders	$47,156	64,840,843	$ 0.73	$47,891	64,263,065	$ 0.75
Dilutive shares		184,074			192,808	
Diluted earnings per share:						
Income available to common stockholders	$47,156	65,024,917	$ 0.73	$47,891	64,455,873	$ 0.74

Antidilutive stock options and awards at June 30, 2018 and 2017, totaling 420,544 shares and 437,904 shares, respectively, were excluded from the earnings per share calculations.

Note 2. Investment Securities

At June 30, 2018, the Company had $1.05 billion and $473.8 million in available for sale debt securities and held to maturity debt securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, variations in pricing information, regulatory actions, changes in the business environment or any changes in the competitive marketplace could have an adverse effect on the Company’s investment portfolio which could result in other-than-temporary impairment ("OTTI") in future periods. The total number of available for sale and held to maturity debt securities in an unrealized loss position as of June 30, 2018, totaled 595, compared with 306 at December 31, 2017. All securities with unrealized losses at June 30, 2018 were analyzed for OTTI. Based upon this analysis, the Company believes that as of June 30, 2018, such securities with unrealized losses do not represent impairments that are other-than-temporary.

Available for Sale Debt Securities

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the fair value for available for sale debt securities at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	5,003	—	(4)	4,999
Mortgage-backed securities	1,041,736	1,932	(24,542)	1,019,126
State and municipal obligations	3,237	81	—	3,318
Corporate obligations	25,043	200	(152)	25,091
	$1,075,019	2,213	(24,698)	1,052,534

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	19,014	—	(9)	19,005
Mortgage-backed securities	993,548	4,914	(10,095)	988,367
State and municipal obligations	3,259	129	—	3,388
Corporate obligations	26,047	359	(12)	26,394
	$1,041,868	5,402	(10,116)	1,037,154

The amortized cost and fair value of available for sale debt securities at June 30, 2018, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	June 30, 2018	
	Amortized cost	Fair value
Due in one year or less	$—	—
Due after one year through five years	8,400	8,338
Due after five years through ten years	24,883	25,070
Due after ten years	—	—
	$33,283	33,408

Mortgage-backed securities totaling $1.04 billion at amortized cost and $1.02 billion at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

For the three and six months ended June 30, 2018, no securities were sold or called from the available for sale debt securities portfolio. For the three and six months ended June 30, 2017, no securities were sold or called from the available for sale debt securities portfolio.

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The following tables present the fair value and gross unrealized losses for available for sale debt securities with temporary impairment at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	4,999	(4)	—	—	4,999	(4)
Mortgage-backed securities	684,255	(14,301)	221,953	(10,241)	906,208	(24,542)
Corporate obligations	7,855	(152)	—	—	7,855	(152)
	$697,109	(14,457)	221,953	(10,241)	919,062	(24,698)

	December 31, 2017 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$12,006	(8)	6,999	(1)	19,005	(9)
Mortgage-backed securities	420,746	(3,936)	235,056	(6,159)	655,802	(10,095)
Corporate obligations	—	—	989	(12)	989	(12)
	$432,752	(3,944)	243,044	(6,172)	675,796	(10,116)

The number of available for sale debt securities in an unrealized loss position at June 30, 2018 totaled 192, compared with 122 at December 31, 2017. The increase in the number of securities in an unrealized loss position at June 30, 2018, was due to higher current market interest rates compared to rates at December 31, 2017. All temporarily impaired securities were investment grade at June 30, 2018. At June 30, 2018, there were two private label mortgage-backed securities in an unrealized loss position, with an amortized cost of $39,000 and an unrealized loss of $1,000. These private label mortgage-backed securities were investment grade at June 30, 2018.

The Company estimates the loss projections for each non-agency mortgage-backed security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the six months ended June 30, 2018. Based on its detailed review of the available for sale debt securities portfolio, the Company believes that as of June 30, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at June 30, 2018, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

Held to Maturity Debt Securities

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for held to maturity debt securities at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$4,987	—	(143)	4,844
Mortgage-backed securities	248	8	—	256
State and municipal obligations	458,624	4,074	(5,373)	457,325
Corporate obligations	9,966	1	(207)	9,760
	$473,825	4,083	(5,723)	472,185

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$4,308	—	(87)	4,221
Mortgage-backed securities	382	14	—	396
State and municipal obligations	462,942	9,280	(1,738)	470,484
Corporate obligations	10,020	1	(83)	9,938
	$477,652	9,295	(1,908)	485,039

The Company generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period. There were no sales of securities from the held to maturity debt securities portfolio for the three and six months ended June 30, 2018 and 2017. For the three and six months ended June 30, 2018, proceeds from calls on securities in the held to maturity debt securities portfolio totaled $195,000 and $20.5 million, respectively. There were no gross gains on calls for the three months ended June 30, 2018 and $1,000 for the six months ended June 30, 2018, and no gross losses in both the three and six month periods. For the three and six months ended June 30, 2017, proceeds from calls of securities in the held to maturity debt securities portfolio totaled $7.9 million and $20.7 million, respectively, with gross gains of $11,000 and no gross losses recognized in both the three and six month periods.

The amortized cost and fair value of investment securities in the held to maturity debt securities portfolio at June 30, 2018 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	June 30, 2018	
	Amortized cost	Fair value
Due in one year or less	$5,143	5,165
Due after one year through five years	75,121	75,177
Due after five years through ten years	261,417	260,745
Due after ten years	131,896	130,842
	$473,577	471,929

Mortgage-backed securities totaling $248,000 at amortized cost and $256,000 at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

The following tables present the fair value and gross unrealized losses for held to maturity debt securities with temporary impairment at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$4,475	(143)	—	—	4,475	(143)
State and municipal obligations	168,467	(2,667)	48,054	(2,706)	216,521	(5,373)
Corporate obligations	8,984	(207)	—	—	8,984	(207)
	$181,926	(3,017)	48,054	(2,706)	229,980	(5,723)

	December 31, 2017 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$3,821	(87)	—	—	3,821	(87)

State and municipal obligations	37,317	(295)	49,488	(1,443)	86,805	(1,738)
Corporate obligations	9,662	(83)	—	—	9,662	(83)
	$50,800	(465)	49,488	(1,443)	100,288	(1,908)

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The Company estimates the loss projections for each non-agency mortgage-backed security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the three months ended June 30, 2018. Based on its detailed review of the held to maturity debt securities portfolio, the Company believes that as of June 30, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at June 30, 2018, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of held to maturity debt securities in an unrealized loss position at June 30, 2018 totaled 403, compared with 184 at December 31, 2017. The increase in the number of securities in an unrealized loss position at June 30, 2018, was due to higher current market interest rates compared to rates at December 31, 2017. All temporarily impaired investment securities were investment grade at June 30, 2018.

Note 3. Loans Receivable and Allowance for Loan Losses

Loans receivable at June 30, 2018 and December 31, 2017 are summarized as follows (in thousands):

	June 30, 2018	December 31, 2017
Mortgage loans:		
Residential	$1,118,140	1,142,347
Commercial	2,185,339	2,171,056
Multi-family	1,405,805	1,403,885
Construction	406,893	392,580
Total mortgage loans	5,116,177	5,109,868
Commercial loans	1,688,477	1,745,138
Consumer loans	451,920	473,957
Total gross loans	7,256,574	7,328,963
Purchased credit-impaired ("PCI") loans	928	969
Premiums on purchased loans	3,668	4,029
Unearned discounts	(35)	(36)
Net deferred fees	(7,893)	(8,207)
Total loans	$7,253,242	7,325,718

The following tables summarize the aging of loans receivable by portfolio segment and class of loans, excluding PCI loans (in thousands):

	June 30, 2018						
	30-59 Days	60-89 Days	Non-accrual	Recorded Investment > 90 days accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential	$4,696	2,924	8,984	—	16,604	1,101,536	1,118,140
Commercial	1,116	59	4,149	—	5,324	2,180,015	2,185,339
Multi-family	—	400	—	—	400	1,405,405	1,405,805
Construction	—	—	—	—	—	406,893	406,893
Total mortgage loans	5,812	3,383	13,133	—	22,328	5,093,849	5,116,177
Commercial loans	2,589	28	17,517	—	20,134	1,668,343	1,688,477
Consumer loans	2,113	368	1,960	—	4,441	447,479	451,920
Total gross loans	$10,514	3,779	32,610	—	46,903	7,209,671	7,256,574

	December 31, 2017						
	30-59 Days	60-89 Days	Non-accrual	Recorded Investment > 90 days accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential	$7,809	4,325	8,105	—	20,239	1,122,108	1,142,347
Commercial	1,486	—	7,090	—	8,576	2,162,480	2,171,056
Multi-family	—	—	—	—	—	1,403,885	1,403,885
Construction	—	—	—	—	—	392,580	392,580
Total mortgage loans	9,295	4,325	15,195	—	28,815	5,081,053	5,109,868
Commercial loans	551	406	17,243	—	18,200	1,726,938	1,745,138
Consumer loans	2,465	487	2,491	—	5,443	468,514	473,957
Total gross loans	$12,311	5,218	34,929	—	52,458	7,276,505	7,328,963

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amounts of these non-accrual loans were $32.6 million and $34.9 million at June 30, 2018 and December 31, 2017, respectively. Included in non-accrual loans were $8.7 million and $11.5 million of loans which were less than 90 days past due at June 30, 2018 and December 31, 2017, respectively. There were no loans 90 days or greater past due and still accruing interest at June 30, 2018 or December 31, 2017.

The Company defines an impaired loan as a non-homogeneous loan greater than $1.0 million for which it is probable, based on current information, all amounts due under the contractual terms of the loan agreement will not be collected. Impaired loans also include all loans modified as troubled debt restructurings ("TDRs"). A loan is deemed to be a TDR when a loan modification resulting in a concession is made in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans, including residential mortgages and other consumer loans, are evaluated collectively for impairment and are excluded from the definition of impaired loans, unless modified as TDRs. The Company separately calculates the reserve for loan losses on impaired loans. The Company may recognize impairment of a loan based upon: (1) the present value of expected cash flows discounted at the effective interest rate; (2) if a loan is collateral dependent, the fair value of collateral; or (3) the fair value of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

The Company uses third-party appraisals to determine the fair value of the underlying collateral in its analysis of collateral dependent impaired loans. A third-party appraisal is generally ordered as soon as a loan is designated as a collateral dependent impaired loan and is generally updated annually or more frequently, if required.

A specific allocation of the allowance for loan losses is established for each collateral dependent impaired loan with a carrying balance greater than the collateral's fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each quarter end, if a loan is designated as a collateral dependent impaired loan and the third-party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management's knowledge of the market and collateral, and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses in the recognition of changes in collateral values as a result of this process.

At June 30, 2018, there were 152 impaired loans totaling $55.5 million. Included in this total were 128 TDRs related to 124 borrowers totaling $38.0 million that were performing in accordance with their restructured terms and which continued to accrue interest at June 30, 2018. At December 31, 2017, there were 149 impaired loans totaling $52.0 million. Included in this total were 125 TDRs to 121 borrowers totaling $31.7 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2017.

The following table summarizes loans receivable by portfolio segment and impairment method, excluding PCI loans (in thousands):

	June 30, 2018			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$24,737	28,509	2,263	55,509
Collectively evaluated for impairment	5,091,440	1,659,968	449,657	7,201,065
Total gross loans	$5,116,177	1,688,477	451,920	7,256,574
	December 31, 2017			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$28,459	21,223	2,359	52,041
Collectively evaluated for impairment	5,081,409	1,723,915	471,598	7,276,922

Total gross loans	$5,109,868	1,745,138	473,957	7,328,963

The allowance for loan losses is summarized by portfolio segment and impairment classification as follows (in thousands):

	June 30, 2018			
	Mortgage loans	Commercial loans	Consumer loans	Total
Individually evaluated for impairment	$1,200	874	66	2,140
Collectively evaluated for impairment	25,961	28,620	2,098	56,679
Total gross loans	$27,161	29,494	2,164	58,819
	December 31, 2017			
	Mortgage loans	Commercial loans	Consumer loans	Total
Individually evaluated for impairment	$1,486	1,134	70	2,690
Collectively evaluated for impairment	26,566	28,680	2,259	57,505
Total gross loans	$28,052	29,814	2,329	60,195

Loan modifications to borrowers experiencing financial difficulties that are considered TDRs primarily involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

The following tables present the number of loans modified as TDRs during the three and six months ended June 30, 2018 and 2017, along with their balances immediately prior to the modification date and post-modification as of June 30, 2018 and 2017.

	For the three months ended					
	June 30, 2018			June 30, 2017		
Troubled Debt Restructurings	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Mortgage loans:						
Residential	1	$ 118	103	3	$ 1,836	$ 1,796
Total mortgage loans	1	118	103	3	1,836	1,796
Total restructured loans	1	$ 118	103	3	$ 1,836	$ 1,796

Troubled Debt Restructurings	For the six months ended June 30, 2018 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	June 30, 2017 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Mortgage loans:						
Residential	1	$ 118	103	6	$ 2,838	$ 2,774
Total mortgage loans	1	118	103	6	2,838	2,774
Commercial loans	5	8,126	9,179	1	1,300	1,240
Consumer loans	—	—	—	2	240	232
Total restructured loans	6	$ 8,244	$ 9,282	9	$ 4,378	$ 4,246

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. During the three and six months ended June 30, 2018, $428,000 and $2.0 million of charge-offs were recorded on collateral dependent impaired loans. There were no charge-offs recorded on collateral dependent impaired loans during the three months ended June 30, 2017. For the six months ended June 30, 2017, $1.2 million of charge-offs were recorded on collateral dependent impaired loans. For the three and six months ended June 30, 2018, the allowance for loan losses associated with the TDRs presented in the preceding tables totaled $0 and $706,650, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment.

For the three and six months ended June 30, 2018, the TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 6.13% and 5.62%, respectively, compared to a weighted average rate of 6.13% and 5.18% prior to modification, respectively.

The following table presents loans modified as TDRs within the previous 12 months from June 30, 2018 and 2017, and for which there was a payment default (90 days or more past due) at the quarter ended June 30, 2018 and 2017.

Troubled Debt Restructurings Subsequently Defaulted	June 30, 2018 Number of Loans	Outstanding Recorded Investment	June 30, 2017 Number of Loans	Outstanding Recorded Investment
	($ in thousands)			
Mortgage loans:				
Total mortgage loans	—	—	—	—
Commercial loans	3	1,344	—	$ —
Consumer loans	—	—	—	—
Total restructured loans	3	$ 1,344	—	$ —

There were three payment defaults on one borrower (90 days or more past due) for loans modified as TDRs within the 12 month period ending June 30, 2018. There were no payment defaults (90 days or more past due) for loans modified as TDRs within the 12 month period ending June 30, 2017. TDRs that subsequently default are considered collateral dependent impaired loans and are evaluated for impairment based on the estimated fair value of the underlying collateral less expected selling costs.

PCI loans are loans acquired at a discount primarily due to deteriorated credit quality. These loans are accounted for at fair value, based upon the present value of expected future cash flows, with no related allowance for loan losses. PCI loans totaled $928,000 at June 30, 2018 and $969,000 at December 31, 2017.

The following table summarizes the changes in the accretable yield for PCI loans during the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Beginning balance	$112	172	101	200
Accretion	(9)	(96)	(29)	(145)
Reclassification from non-accretable discount	13	82	44	103
Ending balance	$116	158	116	158

The activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2018 and 2017 was as follows (in thousands):

Three months ended June 30,	Mortgage loans	Commercial loans	Consumer loans	Total
2018				
Balance at beginning of period	$28,001	32,326	2,194	62,521
Provision (credited) charged to operations	(782)	16,436	(154)	15,500
Recoveries of loans previously charged-off	44	105	213	362
Loans charged-off	(102)	(19,373)	(89)	(19,564)
Balance at end of period	$27,161	29,494	2,164	58,819
2017				
Balance at beginning of period	$29,318	29,786	3,051	62,155
Provision (credited) charged to operations	(292)	1,777	215	1,700
Recoveries of loans previously charged-off	7	73	225	305
Loans charged-off	(207)	(551)	(540)	(1,298)
Balance at end of period	$28,826	31,085	2,951	62,862

Six months ended June 30,	Mortgage loans	Commercial loans	Consumer loans	Total
2018				
Balance at beginning of period	$28,052	29,814	2,329	60,195
Provision (credited) charged to operations	(804)	21,825	(121)	20,900
Recoveries of loans previously charged-off	132	232	392	756
Loans charged-off	(219)	(22,377)	(436)	(23,032)
Balance at end of period	$27,161	29,494	2,164	58,819
2017				
Balance at beginning of period	$29,626	29,143	3,114	61,883
Provision (credited) charged to operations	(423)	3,394	229	3,200
Recoveries of loans previously charged-off	61	531	401	993
Loans charged-off	(438)	(1,983)	(793)	(3,214)
Balance at end of period	$28,826	31,085	2,951	62,862

The following table presents loans individually evaluated for impairment by class and loan category, excluding PCI loans (in thousands):

	June 30, 2018					December 31, 2017				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance										
Mortgage loans:										
Residential	$14,083	11,325	—	11,405	282	13,239	10,477	—	10,552	479
Commercial	1,550	1,546	—	1,546	—	5,037	4,908	—	5,022	12
Total	15,633	12,871	—	12,951	282	18,276	15,385	—	15,574	491
Commercial loans	42,720	17,761	—	37,064	209	19,196	14,984	—	15,428	395
Consumer loans	1,536	985	—	1,019	37	1,582	1,041	—	1,150	69
Total impaired loans	$59,889	31,617	—	51,034	528	39,054	31,410	—	32,152	955
Loans with an allowance recorded										
Mortgage loans:										
Residential	$11,851	10,814	1,123	10,880	221	13,052	12,010	1,351	12,150	475
Commercial	1,052	1,052	77	1,064	26	1,064	1,064	135	1,076	54
Total	12,903	11,866	1,200	11,944	247	14,116	13,074	1,486	13,226	529
Commercial loans	12,035	10,748	874	10,159	170	7,097	6,239	1,134	7,318	208
Consumer loans	1,289	1,278	66	1,305	36	1,329	1,318	70	1,349	64
Total impaired loans	$26,227	23,892	2,140	23,408	453	22,542	20,631	2,690	21,893	801
Total impaired loans										
Mortgage loans:										
Residential	$25,934	22,139	1,123	22,285	503	26,291	22,487	1,351	22,702	954
Commercial	2,602	2,598	77	2,610	26	6,101	5,972	135	6,098	66
Total	28,536	24,737	1,200	24,895	529	32,392	28,459	1,486	28,800	1,020
Commercial loans	54,755	28,509	874	47,223	379	26,293	21,223	1,134	22,746	603
Consumer loans	2,825	2,263	66	2,324	73	2,911	2,359	70	2,499	133
Total impaired loans	$86,116	55,509	2,140	74,442	981	61,596	52,041	2,690	54,045	1,756

Specific allocations of the allowance for loan losses attributable to impaired loans totaled $2.1 million at June 30, 2018 and $2.7 million at December 31, 2017. At June 30, 2018 and December 31, 2017, impaired loans for which there was no related allowance for loan losses totaled $31.6 million and $31.4 million, respectively. The average balance of impaired loans for the six months ended June 30, 2018 and December 31, 2017 was $74.4 million and $54.0 million.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar risk characteristics. Loans deemed to be “acceptable quality” are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of “questionable quality” are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third-party. Reports by the independent third-party are presented directly to the Audit Committee of the Board of Directors.

Loans receivable by credit quality risk rating indicator, excluding PCI loans, are as follows (in thousands):

	At June 30, 2018							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	$2,924	15,556	—	—	18,480	22,614	368	41,462
Substandard	8,984	15,268	236	—	24,488	48,615	1,959	75,062
Doubtful	—	—	—	—	—	480	—	480
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	11,908	30,824	236	—	42,968	71,709	2,327	117,004
Pass/Watch	1,106,232	2,154,515	1,405,569	406,893	5,073,209	1,616,768	449,593	7,139,570
Total	$1,118,140	2,185,339	1,405,805	406,893	5,116,177	1,688,477	451,920	7,256,574

	At December 31, 2017							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	$4,325	19,172	15	—	23,512	20,738	486	44,736
Substandard	8,105	25,069	—	—	33,174	29,734	2,491	65,399
Doubtful	—	—	—	—	—	428	—	428
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	12,430	44,241	15	—	56,686	50,900	2,977	110,563
Pass/Watch	1,129,917	2,126,815	1,403,870	392,580	5,053,182	1,694,238	470,980	7,218,400
Total	$1,142,347	2,171,056	1,403,885	392,580	5,109,868	1,745,138	473,957	7,328,963

Note 4. Deposits

Deposits at June 30, 2018 and December 31, 2017 are summarized as follows (in thousands):

	June 30, 2018	December 31, 2017
Savings	$1,070,397	1,083,012
Money market	1,471,683	1,532,024
NOW	1,983,194	2,011,334
Non-interest bearing	1,499,117	1,452,987
Certificates of deposit	649,558	634,809
Total deposits	$6,673,949	6,714,166

Note 5. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The pension plan was frozen on April 1, 2003. All participants in the Plan are 100% vested. The pension plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are currently made available to certain of the Bank's retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. Effective January 1, 2003, eligibility for retiree health care benefits was frozen as to new entrants, and benefits were eliminated for employees with less than ten years of service as of December 31, 2002.

Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen as to new entrants and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.
Net periodic (increase) benefit cost for pension benefits and other post-retirement benefits for the three and six months ended June 30, 2018 and 2017 includes the following components (in thousands):

	Three months ended June 30,				Six months ended June 30,			
	Pension benefits		Other post-retirement benefits		Pension benefits		Other post-retirement benefits	
	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	$—	—	29	26	$—	—	58	52
Interest cost	274	307	197	218	548	614	394	436
Expected return on plan assets	(693)	(638)	—	—	(1,386)	(1,276)	—	—
Amortization of prior service cost	—	—	—	—	—	—	—	—
Amortization of the net loss (gain)	199	230	(99)	(169)	398	460	(198)	(338)
Net periodic (increase) benefit cost	$(220)	(101)	127	75	$(440)	(202)	254	150

In its consolidated financial statements for the year ended December 31, 2017, the Company previously disclosed that it does not expect to contribute to the pension plan in 2018. As of June 30, 2018, no contributions have been made to the pension plan.
The net periodic benefit (increase) cost for pension benefits and other post-retirement benefits for the three and six months ended June 30, 2018 were calculated using the actual January 1, 2018 pension and other post-retirement benefits valuations.

Note 6. Impact of Recent Accounting Pronouncements

Accounting Pronouncements Adopted in 2018

In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost," which requires that companies disaggregate the service cost component from other components of net benefit cost. This update calls for companies that offer post-retirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance effective January 1, 2018. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.
In May 2017, the FASB issued ASU 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting.” This update provides guidance about changes to terms or conditions of a share-based payment award which would require modification accounting. In particular, an entity is required to account for the effects of a modification if the fair value, vesting condition or the equity/liability classification of the modified award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective on a prospective basis for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance effective January 1, 2018. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," a new standard which addresses diversity in practice related to eight specific cash flow issues: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance

claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will apply the standard's provisions using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted this guidance for the interim reporting period ended March 31, 2018. The adoption

of this guidance did not have a material impact on the Company's consolidated financial statements, nor was additional disclosure deemed necessary.
In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities, except equity method investments, to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted this guidance effective January 1, 2018. As a result, $658,000 of equity securities, as of December 31, 2017, were reclassified from securities available for sale and presented as a separate item on the Consolidated Statements of Financial Condition. The $184,000 after-tax unrealized gain on these securities, at the time of adoption, was reclassified from accumulated other comprehensive income to retained earnings and is reflected in the Consolidated Statements of Changes in Stockholders' Equity. For financial instruments that are measured at amortized cost, the Company measures fair value utilizing an exit pricing methodology, and as such, no changes were required as a result of the adoption of this guidance.
In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are in the scope of other standards. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted. Subsequently, the FASB issued the following standards related to ASU 2014-09: ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations;" ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing;" ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting;" and ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company's revenue is comprised of net interest income on interest earning assets and liabilities and non-interest income. The scope of guidance explicitly excludes net interest income as well as other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives. Accordingly, the majority of the Company's revenues are not affected. The Company formed a working group to guide implementation efforts including the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts and the respective performance obligations within those contracts. The Company completed its evaluation of this guidance and concluded there are no material changes related to the timing or amount of revenue recognition. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements, but resulted in additional footnote disclosures,

including the disaggregation of certain categories of revenue (see Note 10 - "Revenue Recognition").

Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging." The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company is currently assessing the impact that the guidance will have on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.” This ASU shortens the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities. This ASU does not change the accounting for discounts on callable debt securities, which will continue to be amortized to the maturity date. This guidance only includes instruments that are held at a premium and have explicit call features. It does not include instruments that contain prepayment features, such as mortgage backed securities; nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed. The effective date for this ASU is fiscal years beginning after December 15, 2018, including interim periods within the reporting period, with early adoption permitted. Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption. If early adopted in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently assessing the impact this guidance will have on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment.” The main objective of this ASU is to simplify the accounting for goodwill impairment by requiring that impairment charges be based upon the first step in the current two-step impairment test under Accounting Standards Codification (ASC) 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit’s fair value as determined in Step 1. To determine the implied fair value of goodwill, entities estimate the fair value of any unrecognized intangible assets and any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1. Under ASU 2017-04, if a reporting unit’s carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. This standard eliminates the requirement to calculate a goodwill impairment charge using Step 2. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test. Under ASU 2017-04, an entity will still be able to perform the current optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company does not expect ASU 2017-04 to have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments by a reporting entity at each reporting date. The amendments in this ASU require financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses would represent a valuation account that would be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement would reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses would be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity will be required to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The amendments in ASU 2016-13 are effective for fiscal years, including interim periods, beginning after December 15, 2019. Early adoption of this ASU is permitted for fiscal years beginning after December 15, 2018. The Company continues to evaluate the potential impact of ASU 2016-13 on the consolidated financial statements. In that regard, the Company formed, in the first quarter of 2017, a cross-functional working group, under the direction of the Chief Credit Officer, Chief Financial Officer and Chief Risk Officer. The working

group is comprised of individuals from various functional areas including credit, risk management, finance and information technology, among others. The Company developed a detailed implementation plan to include an assessment of processes, portfolio segmentation, model development, model validation, system requirements and the identification of data and resource needs, among other things. The Company has recently selected a system platform and has engaged with third-party vendors to assist with model development, data governance and operational controls to support the adoption of this ASU. The adoption of the ASU 2016-13 may result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate establishing an allowance for expected credit losses on debt securities. The Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13. It is expected that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In the first quarter of 2018, the Company formed a working group to guide the implementation efforts, including the identification and review of all lease agreements within the scope of the guidance. The working group is in the process of identifying a complete inventory of leases and accumulating the lease data necessary to apply the guidance, as well as evaluating software platforms to aid in the transition to the new lease guidance. The Company is currently assessing the impact that the ASU will have on the Company's consolidated financial statements.

Note 7. Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many instances fair value estimates may not be substantiated by comparison to independent markets and may not be realized in an immediate sale of the financial instrument.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The valuation techniques are based upon the unpaid principal balance only, and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of June 30, 2018 and December 31, 2017.

Available for Sale Debt Securities, at Fair Value

For available for sale debt securities, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third-party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As

the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company’s internal price verification procedures and review of fair value methodology

documentation provided by independent pricing services has not historically resulted in an adjustment in the prices obtained from the pricing service.

Equity Securities, at Fair Value

The Company holds equity securities that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Derivatives

The Company records all derivatives on the statement of financial condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company has interest rate derivatives resulting from a service provided to certain qualified borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. As such, all changes in fair value of the Company's interest rate derivatives not used to manage interest rate risk are recognized directly in earnings.

The Company also uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges, and which satisfy hedge accounting requirements, involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. These derivatives were used to hedge the variable cash outflows associated with FHLBNY borrowings. The effective portion of changes in the fair value of these derivatives are recorded in accumulated other comprehensive income, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of these derivatives are recognized directly in earnings.

The fair value of the Company's derivatives is determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

Assets Measured at Fair Value on a Non-Recurring Basis

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of June 30, 2018 and December 31, 2017.

Collateral Dependent Impaired Loans

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell between 5% and 10%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated selling costs, which range between 5% and 10%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value less estimated selling costs is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

There were no changes to the valuation techniques for fair value measurements as of June 30, 2018 and December 31, 2017.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of June 30, 2018 and December 31, 2017, by level within the fair value hierarchy:

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Available for sale debt securities:				
Agency obligations	$4,999	4,999	—	—
Mortgage-backed securities	1,019,126	—	1,019,126	—
State and municipal obligations	3,318	—	3,318	—
Corporate obligations	25,091	—	25,091	—
Total available for sale debt securities	$1,052,534	4,999	1,047,535	—
Equity securities	687	687	—	—
Derivative assets	15,589	—	15,589	—
	$1,068,810	5,686	1,063,124	—
Derivative liabilities	$13,444	—	13,444	—
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$5,947	—	—	5,947
Foreclosed assets	6,537	—	—	6,537
	$12,484	—	—	12,484

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Available for sale debt securities:				
Agency obligations	19,005	19,005	—	—
Mortgage-backed securities	988,367	—	988,367	—
State and municipal obligations	3,388	—	3,388	—
Corporate obligations	26,394	—	26,394	—
Total available for sale debt securities	$1,037,154	19,005	1,018,149	—
Equity Securities	658	658	—	—
Derivative assets	7,219	—	7,219	
	$1,045,031	19,663	1,025,368	—
Derivative liabilities	$6,315	—	6,315	—
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$6,971	—	—	6,971

Foreclosed assets	6,864	—	—	6,864
	$13,835	—	—	13,835

There were no transfers between Level 1, Level 2 and Level 3 during the three and six months ended June 30, 2018.

Other Fair Value Disclosures

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

Cash and Cash Equivalents

For cash and due from banks, federal funds sold and short-term investments, the carrying amount approximates fair value.

Held to Maturity Debt Securities

For held to maturity debt securities, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 within the fair value hierarchy.

Federal Home Loan Bank of New York ("FHLBNY") Stock

The carrying value of FHLBNY stock is its cost. The fair value of FHLBNY stock is based on redemption at par value. The Company classifies the estimated fair value as Level 1 within the fair value hierarchy.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories.

The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date (i.e. exit pricing). The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, was equal to the amount payable on demand and classified as Level 1. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company's current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and is classified by the Company as Level 2 within the fair value hierarchy.

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Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and letters of credit are deemed immaterial.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following tables present the Company's financial instruments at their carrying and fair values as of June 30, 2018 and December 31, 2017. Fair values are presented by level within the fair value hierarchy.

			Fair Value Measurements at June 30, 2018 Using:		
(Dollars in thousands)	Carrying value	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$141,953	141,953	141,953	—	—
Available for sale debt securities:					
Agency obligations	4,999	4,999	4,999	—	—
Mortgage-backed securities	1,019,126	1,019,126	—	1,019,126	—
State and municipal obligations	3,318	3,318	—	3,318	—
Corporate obligations	25,091	25,091	—	25,091	—
Total available for sale debt securities	$1,052,534	1,052,534	4,999	1,047,535	—
Held to maturity debt securities:					
Agency obligations	4,987	4,844	4,844	—	—
Mortgage-backed securities	248	256	—	256	—
State and municipal obligations	458,624	457,325	—	457,325	—
Corporate obligations	9,966	9,760	—	9,760	—
Total held to maturity debt securities	$473,825	472,185	4,844	467,341	—
FHLBNY stock	76,772	76,772	76,772	—	—
Equity Securities	687	687	687	—	—
Loans, net of allowance for loan losses	7,194,423	7,074,642	—	—	7,074,642
Derivative assets	15,589	15,589	—	15,589	—
Financial liabilities:					
Deposits other than certificates of deposits	$6,024,391	6,024,391	6,024,391	—	—
Certificates of deposit	649,558	646,616	—	646,616	—
Total deposits	$6,673,949	6,671,007	6,024,391	646,616	—
Borrowings	1,641,539	1,626,529	—	1,626,529	—
Derivative liabilities	13,444	13,444	—	13,444	—

(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at December 31, 2017 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$190,834	190,834	190,834	—	—
Available for sale debt securities:					
Agency obligations	19,005	19,005	19,005	—	—
Mortgage-backed securities	988,367	988,367	—	988,367	—
State and municipal obligations	3,388	3,388	—	3,388	—
Corporate obligations	26,394	26,394	—	26,394	—
Total available for sale debt securities	$1,037,154	1,037,154	19,005	1,018,149	—
Held to maturity debt securities:					
Agency obligations	$4,308	4,221	4,221	—	—
Mortgage-backed securities	382	396	—	396	—
State and municipal obligations	462,942	470,484	—	470,484	—
Corporate obligations	10,020	9,938	—	9,938	—
Total held to maturity debt securities	$477,652	485,039	4,221	480,818	—
FHLBNY stock	81,184	81,184	81,184	—	—
Equity Securities	658	658	658	—	—
Loans, net of allowance for loan losses	7,265,523	7,217,705	—	—	7,217,705
Derivative assets	7,219	7,219	—	7,219	—
Financial liabilities:					
Deposits other than certificates of deposits	$6,079,357	6,079,357	6,079,357	—	—
Certificates of deposit	634,809	632,744	—	632,744	—
Total deposits	$6,714,166	6,712,101	6,079,357	632,744	—
Borrowings	1,742,514	1,739,102	—	1,739,102	—
Derivative liabilities	6,315	6,315	—	6,315	—

Note 8. Other Comprehensive (Loss) Income

The following table presents the components of other comprehensive (loss) income, both gross and net of tax, for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive Income:						
Unrealized gains and losses on available for sale debt securities:						
Net (losses) gains arising during the period	$(4,670)	1,232	(3,438)	2,048	(820)	1,228
Reclassification adjustment for gains included in net income	—	—	—	—	—	—
Total	(4,670)	1,232	(3,438)	2,048	(820)	1,228
Unrealized gains (losses) on derivatives (cash flow hedges)	201	(53)	148	(5)	2	(3)
Amortization related to post-retirement obligations	101	(27)	74	61	(24)	37
Total other comprehensive (loss) income	$(4,368)	1,152	(3,216)	2,104	(842)	1,262

	Six months ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive Income:						
Unrealized gains and losses on available for sale debt securities:						
Net (losses) gains arising during the period	$(17,763)	4,686	(13,077)	3,336	(1,337)	1,999
Reclassification adjustment for gains included in net income	—	—	—	—	—	—
Total	(17,763)	4,686	(13,077)	3,336	(1,337)	1,999
Unrealized gains (losses) on derivatives (cash flow hedges)	921	(243)	678	87	(35)	52
Amortization related to post-retirement obligations	185	(49)	136	114	(45)	69
Total other comprehensive (loss) income	$(16,657)	4,394	(12,263)	3,537	(1,417)	2,120

The following tables present the changes in the components of accumulated other comprehensive (loss) income, net of tax, for the three and six months ended June 30, 2018 and 2017 (in thousands):

Changes in Accumulated Other Comprehensive Income (Loss) by Component, net of tax for the three months ended June 30,

	2018				2017			
	Unrealized Losses on Available for Sale Debt Securities	Post-Retirement Obligations	Unrealized gains on Derivatives (cash flow hedges)	Accumulated Other Comprehensive Loss	Unrealized Gains on Available for Sale Debt Securities	Post-Retirement Obligations	Unrealized gains (losses) on Derivatives (cash flow hedges)	Accumulated Other Comprehensive (Loss) Income
Balance at March 31,	$(13,115)	(4,784)	1,203	(16,696)	261	(3,024)	224	(2,539)
Current period other comprehensive (loss) income	(3,438)	74	148	(3,216)	1,228	37	(3)	1,262
Balance at June 30,	$(16,553)	(4,710)	1,351	(19,912)	1,489	(2,987)	221	(1,277)

Changes in Accumulated Other Comprehensive Income (Loss) by Component, net of tax for the six months ended June 30,

	2018				2017			
	Unrealized Losses on Available for Sale Debt Securities	Post-Retirement Obligations	Unrealized gains on Derivatives (cash flow hedges)	Accumulated Other Comprehensive Loss	Unrealized (Losses) Gains on Available for Sale Debt Securities	Post-Retirement Obligations	Unrealized gains on Derivatives (cash flow hedges)	Accumulated Other Comprehensive (Loss) Income
Balance at December 31,	$(3,292)	(4,846)	673	(7,465)	(510)	(3,056)	169	(3,397)
Current period other comprehensive (loss) income	(13,077)	136	678	(12,263)	1,999	69	52	2,120
Reclassification of unrealized gains on equity securities due to the adoption of ASU No. 2016-01	(184)	—	—	(184)	—	—	—	—
Balance at June 30,	$(16,553)	(4,710)	1,351	(19,912)	1,489	(2,987)	221	(1,277)

The following tables summarize the reclassifications from accumulated other comprehensive income to the consolidated statements of income for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Reclassifications From Accumulated Other Comprehensive Income ("AOCI")		
	Amount reclassified from AOCI for the three months ended June 30,		Affected line item in the Consolidated Statement of Income
	2018	2017	
Details of AOCI:			
Post-retirement obligations:			

Amortization of actuarial losses	$	100	61	Compensation and employee benefits [1]
		(26)	(24)	Income tax expense
Total reclassification	$	74	37	Net of tax

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	Reclassifications From Accumulated Other Comprehensive Income ("AOCI")		
	Amount reclassified from AOCI for the six months ended June 30,		Affected line item in the Consolidated
	2018	2017	Statement of Income
Details of AOCI:			
Post-retirement obligations:			
Amortization of actuarial losses	$ 200	122	Compensation and employee benefits [1]
	(52)	(48)	Income tax expense
Total reclassification	$ 148	74	Net of tax

(1) This item is included in the computation of net periodic benefit cost. See Note 5. Components of Net Periodic Benefit Cost.

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Note 9. Derivative and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities.

Non-designated Hedges. Derivatives not designated in qualifying hedging relationships are not speculative and result from a service the Company provides to certain qualified commercial borrowers in loan related transactions and, therefore, are not used to manage interest rate risk in the Company’s assets or liabilities. The Company executes interest rate swaps with qualified commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. The interest rate swap agreement which the Company executes with the commercial borrower is collateralized by the borrower's commercial real estate financed by the Company. The collateral exceeds the maximum potential amount of future payments under the credit derivative. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. At June 30, 2018 and December 31, 2017, the Company had 50 and 48 interest rate swaps, respectively, with aggregate notional amounts of $777.4 million and $718.5 million, respectively, related to this program. Additionally, at June 30, 2018 and December 31, 2017, the Company had three and two credit derivatives, respectively, with aggregate notional amounts of $29.7 million and $15.8 million, respectively, from participations in interest rate swaps provided to external lenders as part of loan participation arrangements; therefore, they are not used to manage interest rate risk in the Company's assets or liabilities. At June 30, 2018 and December 31, 2017, the fair value of these credit derivatives was immaterial.

Cash Flow Hedges of Interest Rate Risk. The Company’s objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2018 and 2017, such derivatives were used to hedge the variable cash outflows associated with Federal Home Loan Bank borrowings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2018 and 2017, the Company did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s debt. During the next twelve months, the Company estimates that $561,000 will be reclassified as an increase to interest expense. As of June 30, 2018, the Company had two outstanding interest rate derivatives with an aggregate notional amount of $60.0 million that was designated as a cash flow hedge of interest rate risk.

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition at June 30, 2018 and December 31, 2017 (in thousands):

At
June
30,
2018