

BCB BANCORP INC
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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: 0-50275

BCB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

New Jersey	26-0065262
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	I.D. No.)
104-110 Avenue C Bayonne, New Jersey	07002

Edgar Filing: BCB BANCORP INC - Form 10-Q

(Address of principal executive offices) (Zip Code)

(201) 823-0700

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer, larger accelerated filer, non-accelerated filer, smaller reporting company, or emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 1st, 2018, BCB Bancorp, Inc., had 15,801,875 shares of common stock, no par value, outstanding.

BCB BANCORP INC. AND SUBSIDIARIES

INDEX

	Page
PART I. CONSOLIDATED FINANCIAL INFORMATION	
<u>Item 1. Consolidated Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2018 (unaudited) and December 31, 2017 (unaudited)</u>	1
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017 (unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 (unaudited)</u>	3
<u>Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2018 and 2017 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (unaudited)</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	47
 PART II. OTHER INFORMATION	 47
<u>Item 1. Legal Proceedings</u>	47
<u>Item 1A. Risk Factors</u>	48
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3. Defaults Upon Senior Securities</u>	48
<u>Item 4. Mine Safety Disclosures</u>	48
<u>Item 5. Other Information</u>	48
<u>Item 6. Exhibits</u>	48

PART I. CONSOLIDATED FINANCIAL INFORMATION

ITEM I. CONSOLIDATED FINANCIAL STATEMENTS

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, Except Share and Per Share Data, Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and amounts due from depository institutions	\$ 32,459	\$ 16,460
Interest-earning deposits	174,251	107,775
Total cash and cash equivalents	206,710	124,235
Interest-earning time deposits	980	980
Debt securities available for sale	119,811	114,295
Equity investments	8,052	8,294
Loans held for sale	1,772	1,295
Loans receivable, net of allowance for loan losses of \$21,504 and \$17,375 respectively	2,225,001	1,643,677
Federal Home Loan Bank of New York stock, at cost	14,755	10,211
Premises and equipment, net	20,392	18,768
Accrued interest receivable	8,635	6,153
Other real estate owned	1,232	532
Deferred income taxes	11,607	5,144
Goodwill	5,223	-
Other assets	13,698	9,253
Total Assets	\$ 2,637,868	\$ 1,942,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	\$ 276,998	\$ 201,043
Interest bearing deposits	1,839,626	1,368,327
Total deposits	2,116,624	1,569,370
FHLB advances	275,800	185,000
Subordinated debt	36,519	4,124
Other liabilities and accrued interest payable	13,162	7,889
Total Liabilities	2,442,105	1,766,383
STOCKHOLDERS' EQUITY		

Edgar Filing: BCB BANCORP INC - Form 10-Q

Preferred stock: \$0.01 par value, 10,000,000 shares authorized; issued and outstanding 7,807 shares of series C 6%, series D 4.5%, (liquidation value \$10,000 per share) and series F 6% (liquidation value \$1,000 per share) noncumulative perpetual preferred stock at September 30, 2018 and 1,342 shares of series C 6% and series D 4.5% (liquidation value \$10,000 per share) noncumulative perpetual preferred stock at December 31, 2017	-	-
Additional paid-in capital preferred stock	19,706	13,241
Common stock: no par value; 20,000,000 shares authorized; issued 18,313,476 and 17,572,942 at September 30, 2018 and December 31, 2017, respectively, outstanding 15,782,713 shares and 15,042,179 shares, at September 30, 2018 and December 31, 2017, respectively	-	-
Additional paid-in capital common stock	175,970	164,230
Retained earnings	35,693	31,241
Accumulated other comprehensive (loss)	(6,490)	(3,142)
Treasury stock, at cost, 2,530,763 shares at September 30, 2018 and December 31, 2017	(29,116)	(29,116)
Total Stockholders' Equity	195,763	176,454
 Total Liabilities and Stockholders' Equity	 \$ 2,637,868	 \$ 1,942,837

See accompanying notes to unaudited consolidated financial statements

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, Except for Per Share Amounts, Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$ 26,019	\$ 18,399	\$ 69,588	\$ 53,967
Mortgage-backed securities	827	581	2,363	1,712
Municipal bonds and other debt	116	113	416	377
FHLB stock and other interest earning assets	1,009	313	2,242	874
Total interest income	27,971	19,406	74,609	56,930
Interest expense:				
Deposits:				
Demand	1,130	700	2,902	2,050
Savings and club	116	100	318	299
Certificates of deposit	4,591	2,284	10,726	6,437
	5,837	3,084	13,946	8,786
Borrowings	2,054	748	4,153	2,902
Total interest expense	7,891	3,832	18,099	11,688
Net interest income	20,080	15,574	56,510	45,242
Provision for loan losses	907	511	4,309	1,785
Net interest income after provision for loan losses	19,173	15,063	52,201	43,457
Non-interest income:				
Fees and service charges	1,092	749	2,773	2,383
Gain on sales of loans	738	540	1,897	1,611
Loss on bulk sale of impaired loans held in portfolio	-	-	(24)	-
Gain on sales of other real estate owned	14	222	4	1,570
Gain on sale of investment securities	-	97	-	97
Unrealized loss on equity investments	(82)	-	(242)	-
Other	90	25	2,393	307
Total non-interest income	1,852	1,633	6,801	5,968
Non-interest expense:				
Salaries and employee benefits	7,156	5,925	20,548	17,893
Occupancy and equipment	2,490	2,038	7,028	6,185
Data processing and service fees	942	703	2,499	2,034
Professional fees	437	491	1,475	2,237
Director fees	192	198	594	576

Edgar Filing: BCB BANCORP INC - Form 10-Q

Regulatory assessments	419	318	948	1,010
Advertising and promotional	129	117	314	375
Other real estate owned, net	22	9	213	64
Merger related costs	119	-	2,303	-
Other	2,485	1,500	6,460	4,635
Total non-interest expense	14,391	11,299	42,382	35,009
Income before income tax provision	6,634	5,397	16,620	14,416
Income tax provision	2,040	2,180	5,081	5,773
Net Income	\$ 4,594	\$ 3,217	\$ 11,539	\$ 8,643
Preferred stock dividends	263	166	691	449
Net Income available to common stockholders	\$ 4,331	\$ 3,051	\$ 10,848	\$ 8,194
Net Income per common share-basic and diluted				
Basic	\$ 0.27	\$ 0.25	\$ 0.70	\$ 0.71
Diluted	\$ 0.27	\$ 0.25	\$ 0.69	\$ 0.70
Weighted average number of common shares outstanding				
Basic	15,789	12,142	15,482	11,572
Diluted	15,896	12,226	15,609	11,664

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands, Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	\$ 4,594	\$ 3,217	\$ 11,539	\$ 8,643
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on available-for-sale debt securities:				
Unrealized holding (losses) gains arising during the period	(845)	496	(4,189)	2,833
Tax Effect	155	(203)	967	(1,157)
Net of Tax Effect	(690)	293	(3,222)	- 1,676
Other comprehensive (loss) income	(690)	293	(3,222)	1,676
Comprehensive income	\$ 3,904	\$ 3,510	\$ 8,317	\$ 10,319

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

(In thousands, Except Share and Per Share Data, Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2017	\$ -	\$ -	\$ 177,471	\$ 31,241	\$ (29,116)	\$ (3,142)	\$ 176,454
Acquisition of IA Bancorp	-	-	17,405	-	-	-	17,405
Exercise of Stock Options (200 shares)	-	-	2	-	-	-	2
Stock-based compensation expense	-	-	230	-	-	-	230
Dividends payable on Series C 6%, Series D 4.5%, and Series F 6% noncumulative perpetual preferred stock	-	-	-	(691)	-	-	(691)
Cash dividends on common stock (\$0.14 per share declared)	-	-	-	(6,275)	-	-	(6,275)
Dividend Reinvestment Plan	-	-	247	(247)	-	-	-
Stock Purchase Plan	-	-	321	-	-	-	321
Net income	-	-	-	11,539	-	-	11,539
Reclassification of unrealized gains on AFS equity securities	-	-	-	126	-	(126)	-
Other comprehensive loss	-	-	-	-	-	(3,222)	(3,222)
	\$ -	\$ -	\$ 195,676	\$ 35,693	\$ (29,116)	\$ (6,490)	\$ 195,763

Edgar Filing: BCB BANCORP INC - Form 10-Q

Balance at September 30,
2018

	Preferred Stock	Common Stock	Additional	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	\$ -	\$ -	\$ 135,881	\$ 28,159	\$ (29,103)	\$ (3,856)	\$ 131,081
Issuance of Common Stock			42,759				42,759
Redemption of Series A and B Preferred Stock	-	-	(11,720)	-	-	-	(11,720)
Issuance of Series D Preferred Stock	-	-	9,497	-	-	-	9,497
Exercise of Stock Options (200 shares)	-	-	2	-	-	-	2
Stock-based compensation expense	-	-	126	-	-	-	126
Treasury stock purchases	-	-	-	-	(13)	-	(13)
Dividends payable on Series C 6% and Series D 4.5% noncumulative perpetual preferred stock	-	-	-	(449)	-	-	(449)
Cash dividends on common stock (\$0.14 per share declared)	-	-	-	(4,519)	-	-	(4,519)
Dividend Reinvestment Plan	-	-	221	(221)	-	-	-
Stock Purchase Plan	-	-	485	-	-	-	485
Net income	-	-	-	8,643	-	-	8,643
Other comprehensive income	-	-	-	-	-	1,676	1,676

Edgar Filing: BCB BANCORP INC - Form 10-Q

Balance at September 30, 2017 \$ - \$ - \$ 177,251 \$ 31,613 \$ (29,116) \$ (2,180) \$ 177,568

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands, Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities :		
Net Income	\$ 11,539	\$ 8,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	2,039	1,927
Amortization and accretion, net	(2,191)	(1,013)
Provision for loan losses	4,309	1,785
Deferred income tax (benefit)	(284)	2,314
Loans originated for sale	(17,320)	(19,371)
Proceeds from sales of loans	18,740	22,651
Gain on sales of loans originated for sale	(1,897)	(1,611)
Gains on sales of other real estate owned	(4)	(1,570)
Gains on sales of securities available for sale	-	(97)
Fair value adjustment of OREO	101	-
Loss on equity investments	242	-
Loss on bulk sale of impaired loans held in portfolio	24	-
Stock-based compensation expense	230	126
Increase in interest receivable	(1,870)	(235)
(Increase) decrease in other assets	(2,637)	92
Increase (decrease) in accrued interest payable	1,132	(209)
Increase in other liabilities	1,376	311
Net Cash Provided by Operating Activities	13,529	13,743
Cash flows from investing activities:		
Proceeds from calls on securities available for sale	20,286	22,423
Purchases of securities available for sale	(16,353)	(46,298)
Proceeds from sales of other real estate owned	502	4,813
Proceeds from bulk sale of impaired loans held	250	-
Proceeds from sales of securities available for sale	-	21,165
Net increase in loans receivable	(401,888)	(135,657)
Additions to premises and equipment	(829)	(1,804)
(Purchase) Redemption of Federal Home Loan Bank of New York stock	(3,381)	1,210
Cash acquired in acquisition	7,597	-
Cash paid in acquisition	(2,550)	-
Net Cash Used In Investing Activities	(396,366)	(134,148)
Cash flows from financing activities:		
Net increase in deposits	368,818	153,943
Proceeds from Federal Home Loan Bank of New York advances	175,800	38,000
Repayments of Federal Home Loan Bank of New York advances	(105,000)	(55,000)

Edgar Filing: BCB BANCORP INC - Form 10-Q

Net change in short-term debt	-	(20,000)
Purchases/adjustments of treasury stock	-	(13)
Cash dividends paid on common stock	(6,275)	(4,519)
Cash dividends paid on preferred stock	(691)	(449)
Net proceeds from issuance of common stock	321	43,244
Net proceeds from issuance of preferred stock	-	9,497
Net payment on redemption of preferred stock	-	(11,720)
Net proceeds from issuance of subordinated debt	32,337	-
Exercise of stock options	2	2
Net Cash Provided by Financing Activities	465,312	152,985
Net Increase In Cash and Cash Equivalents	82,475	32,580
Cash and Cash Equivalents-Beginning	124,235	65,038
Cash and Cash Equivalents-Ending	\$ 206,710	\$ 97,618
Supplementary Cash Flow Information:		
Cash paid during the year for:		
Income taxes	\$ 6,706	\$ 4,285
Interest	\$ 16,968	\$ 11,898
Non-cash items:		
Transfer of loans to other real estate owned	\$ 972	\$ 1,128

See accompanying notes to unaudited consolidated financial statements

BCB Bancorp Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the “Company”) and the Company’s wholly owned subsidiaries, BCB Community Bank (the “Bank”), BCB Holding Company Investment Company, BCB New York Asset Management, Inc. and Pamrapo Service Corporation. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited consolidated financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. These results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2018 or any other future period. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2017, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred between September 30, 2018, and the date these consolidated financial statements were issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one

year. The scope of ASC 606 excludes net interest income and other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives, which would then exclude the majority of the Company's revenues. However, the recognition and measurement of certain non-interest income items such as gain on sale of other real estate owned and deposit-related fees, could be affected by ASC 606. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Implementation of the guidance did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for the Company in 2019. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. The amendments are effective for the Company in 2020. The Company has begun evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations. The effect of this change cannot be ascertained at this point, and will depend upon factors including asset components, asset quality and market conditions at the adoption date.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this update require that an entity account for the effects of a modification unless the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The Company adopted ASU 2017-09 on a prospective basis in January 2018. Due to prospective application, the impact on the Company's consolidated financial statements will be dependent upon the terms of future modifications.

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. ASU 2017-08 was issued to enhance the accounting for the amortization of premiums for purchased callable debt securities. This amendment requires that the amortization of the premium be shortened to the earliest call date. The Company adopted ASU 2017-08 as of

January 1, 2018 with no effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance amends existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company recorded a cumulative effect adjustment to the balance sheet as of January 1, 2018 in the amount of \$126,000, representing the unrealized gain of \$175,000 at December 31, 2017 net of taxes of \$49,000. For the nine months ended September 30, 2018, the Company recorded a loss to the income statement in the amount of \$242,000. In addition to the change noted above, adoption of this standard will impact the fair value disclosures included in Note 10.

Note 1 – Basis of Presentation (continued)

In February 2018, the FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU required a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate as a result of the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted twenty-one percent corporate income tax rate. The Company chose to early adopt the new standard for the year ending December 31, 2017, as allowed under the new standard. The amount of the reclassification for the Company was \$557,000, as shown in the Consolidated Statement of Changes in Shareholders' Equity in the Company's Form 10-K filing for the year ended December 31, 2017, subject to Staff Accounting Bulletin 118, Income Tax Implications of the Tax Cuts and Jobs Act ("SAB 118"). SAB 118 provides a measurement period not to extend beyond one year of the enactment date to adjust the accounting for certain elements of the tax reform. The Company does not anticipate a material adjustment to tax expense during the measurement period.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement as a result of a broader disclosure project. The Update amends the disclosure requirements for fair value measurements to improve the effectiveness of the disclosure. The Update removes and modifies certain disclosure requirements, as well as adds requirements for public business entities. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the Update and delay adoption of the additional disclosures until their effective date. This ASU will affect the Company's disclosures only and will not have a financial statement impact.

Note 2 – Acquisition of IA Bancorp, Inc.

On April 17, 2018, the Company completed its acquisition of IA Bancorp, Inc. ("IAB") and its wholly-owned subsidiary, Indus-American Bank, of Edison, New Jersey. IAB shareholders received 0.189 shares of the Company's common stock for each share of IAB common stock they owned as of the effective date of the acquisition. In addition, the Company issued two series of preferred stock, Series E and F, in exchange for two outstanding series, Series C and D, respectively, of IAB preferred stock. The two series of Company preferred shares have terms substantially similar to the terms of the two series of IAB preferred stock. The aggregate consideration paid to IAB shareholders was \$20.0 million. The results of IAB's operations are included in the Company's unaudited consolidated statements of income beginning April 17, 2018, the date of the acquisition.

Indus-American Bank was founded primarily to meet the banking needs of the South Asian-American community. The Company plans to operate BCB-Indus-American Bank, a division of BCB Community Bank, and it will continue to specialize in core business banking products for small- to medium-sized companies, with an emphasis on real estate-based lending. This transaction will allow the combined entities to further develop our existing markets in Jersey City and Edison, and will provide further opportunities in Parsippany, Plainsboro and Hicksville, New York, three new, attractive markets for the Company.

The acquisition of IAB was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The \$5.2 million excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition as of September 30, 2018.

The assets acquired and liabilities assumed and consideration paid in the acquisition of IAB were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value At September 30, 2018 (in thousands)
Consideration paid:	
Common stock issued in acquisition	\$ 9,952
Cash paid for exchange of IAB shares	2,550
Preferred stock	7,453
Total consideration paid	19,955
Assets acquired:	
Cash and cash equivalents	7,597
Investment securities available for sale	13,811
Restricted investment in bank stocks	1,163
Loans	182,585
Premises and equipment, net	2,834
Other real estate owned, net	328
Accrued interest receivable	612
Core deposit intangible	430
Deferred tax asset	5,212
Other assets	1,273
Total assets acquired	215,845

Liabilities assumed:

Deposits	178,436
Borrowings	20,015
Accrued interest payable	120
Other liabilities	2,542
Total liabilities assumed	201,113
Net assets acquired	14,732
Goodwill recorded in acquisition	\$ 5,223

7

Note 2 – Acquisition of IA Bancorp, Inc. (continued)

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10 for the acquired loan portfolio. The three separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, (ii) a general credit fair value adjustment, and (iii) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 provisions. The acquired loans were recorded at fair value at the acquisition date without carryover of IAB's previously established allowance for loan losses.

The table below illustrates the fair value adjustments made to the amortized cost basis to present a fair value of the loans acquired.

	At September 30, 2018 (in thousands)
Gross principal balance	\$ 192,055
Fair value adjustment on pools of homogeneous loans	(5,895)
Fair value adjustment on acquired impaired loans	(3,575)
Fair value of acquired loans	\$ 182,585

The credit adjustment on acquired impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that have been deemed uncollectible based on the Company's expectations of future cash flows for each respective loan.

	At September 30, 2018 (in thousands)
Contractually required principal and interest at acquisition	\$ 21,177
Contractual cash flows not expected to be collected (non-accretable)	

Edgar Filing: BCB BANCORP INC - Form 10-Q

discount, includes principal and interest)	(4,892)
Expected cash flows at acquisition	16,285
Interest component of expected cash flows (accrutable discount)	(1,399)
Fair value of loans acquired accounted for under ASC 310-30	14,886

For loans acquired without evidence of credit quality deterioration, the Company prepared interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed for reasonableness. A present value approach was utilized to calculate the interest rate fair value discount of \$1.9 million. Additionally, for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: (i) expected lifetime credit migration losses, and (ii) estimated fair value adjustment for certain qualitative credit factors. The expected lifetime losses were calculated using historical losses observed at IAB. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of \$3.9 million was determined. The fair value adjustment related to loans acquired without evidence of credit quality deterioration will be substantially recognized as interest income over the expected life of the loans.

In connection with the acquisition of IAB, the Company recorded a net deferred income tax asset of \$5.2 million related to IAB's net operating loss carryforward, as well as other tax attributes of the acquired company, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

The fair value of savings and transaction deposit accounts acquired from IAB provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The expected cash-flows of the deposit base included estimated attrition rates. The core deposit intangible was valued at \$430,000. The core deposit intangible asset is being amortized on an accelerated basis over ten years. Amortization from the April 17, 2018 acquisition date through September 30, 2018 was \$39,000.

The fair value of certificate of deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to yield market rates. This valuation adjustment was determined to be a \$751,000 premium and is being amortized in line with the expected cash flows driven by the maturities of these deposits, primarily over the next five years.

Direct costs related to the merger were accrued and expensed as incurred. During the nine months ended September 30, 2018, the Company incurred \$2.3 million in merger-related expenses, including \$2.0 million of early termination fees from IAB's core system provider. The Company had also incurred merger costs in the fourth quarter of 2017 of \$800,000 including legal and professional fees.

Note 2 – Acquisition of IA Bancorp, Inc. (continued)

Supplemental Pro Forma Financial Information

The following table presents unaudited condensed pro forma financial information assuming the IAB acquisition had been completed as of January 1, 2018 and for the nine months ended September 30, 2018 and as of January 1, 2017 and for the nine months ended September 30, 2017. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results.

Furthermore, the unaudited pro forma financial information includes merger-related expenses but does not reflect management's estimate of any revenue-enhancing opportunities, cost savings or the impact of conforming certain accounting policies of IAB to the Company's policies that may have occurred as a result of the integration and consolidation of IAB's operations. The combined pro forma information reflects adjustments related to certain purchase accounting fair value adjustments and amortization of the core deposit intangibles.

	Pro forma Combined Nine Months Ended September 30, 2018 (In thousands, except per share data)	Pro forma Combined Nine Months Ended September 30, 2017 (In thousands, except per share data)
Interest income	\$ 77,616	\$ 59,937
Interest Expense	18,885	12,474
Provision for loan losses	4,309	1,785
Non-interest income	6,914	6,081
Non-interest expense	44,039	36,666
Income Taxes	5,284	5,976
Net Income	12,013	9,117
Earnings per diluted share	\$ 0.73	\$ 0.74

Fair Value Measurement of Assets Acquired and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and the liabilities assumed in the IAB acquisition were as follows. Refer to Note 10, Fair Value Measurements, for a discussion of the fair value hierarchy.

Investment Securities

The estimated fair values of investment securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Note 3 – Reclassification

Certain amounts as of December 31, 2017 and for the three and nine month period ended September 30, 2017, respectively have been reclassified to conform to the current period's presentation. These changes had no effect on the Company's results of operations or financial position.

Note 4 – Pension and Other Postretirement Plans

The Company assumed, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan ("Pension Plan"), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the Pension Plan to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of service are not considered when computing an employee's benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan ("SERP") in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the "Normal Retirement Age"), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Net periodic pension benefit for the three and nine months ended September 30, 2018 and September 30, 2017 was \$10,000, \$30,000, \$9,000, and \$27,000 respectively. Net periodic postretirement cost for the SERP plan for the three and nine months ended September 30, 2018 and September 30, 2017 was \$3,000, \$9,000, \$4,000, and \$12,000 respectively.

Share – Based Compensation

The Company, under the plan approved by its stockholders on April 26, 2018 ("2018 Equity Incentive Plan"), authorized the issuance of up to 1,000,000 shares of common stock of the Company pursuant to grants of stock options, restricted stock or restricted stock units. Employees and directors of the Company and the Bank are eligible to participate in the 2018 Equity Incentive Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. Restricted stock units are similar to restricted stock awards, except that no share of stock is actually awarded on the date of grant of a restricted stock unit. A restricted stock unit will be settled in shares of Common Stock, provided, however, that in the sole discretion of the Compensation Committee, a restricted stock unit may be settled in cash. Shares of stock issued pursuant to the exercise of stock options will count against the share limit as one share of stock for every one share of stock to which such exercise relates. Shares of stock issued pursuant to restricted stock awards or restricted stock units will count against the share limit as two shares of stock for every one share of stock issued in connection with the award.

Note 4 – Pension and Other Postretirement Plans (continued)

The Company, under the plan approved by its stockholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of the Company pursuant to grants of stock options. Employees and directors of the Company and the Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options.

On September 13, 2017, a grant of 350,000 options was declared for members of the Board of Directors and Executive Officers which vest at a rate of 10% per year and 20% per year, respectively, commencing on the first anniversary of the grant date. On September 16, 2016, a grant of 160,000 options was declared for members of the Board of Directors and the Chief Executive Officer, which vest at a rate of 10% per year and 33% per year, respectively, commencing on the first anniversary of the grant date. On December 2, 2015, a grant of 120,000 options and on March 7, 2014, a grant of 110,000 options were declared for certain members of the Board of Directors which vest at a rate of 10% per year, over ten years commencing on the first anniversary of the grant date.

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2017	889,300	\$ 8.93-13.32	\$ 11.42
Options granted	-	-	-
Options exercised	(12,200)	9.03-13.32	10.91
Options forfeited	(53,000)	9.03-13.32	11.69
Options expired	-	-	-
Outstanding at September 30, 2018	824,100	\$ 8.93-13.32	\$ 11.41

As of September 30, 2018, stock options which were granted and were exercisable totaled 242,033 stock options.

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to the 582,067 shares of unvested options outstanding as of September 30, 2018 was \$1.1 million over a weighted average period of 6.75 years.

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2016	575,000	\$ 8.93-13.32	\$ 10.78
Options granted	350,000	12.40	12.40
Options exercised	(700)	10.55	-
Options forfeited	(35,000)	8.93-13.32	-
Options expired	-		
Outstanding at September 30, 2017	889,300	\$ 8.93-13.32	\$ 11.42

As of September 30, 2017, stock options which were granted and were exercisable totaled 139,367 stock options.

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to 749,933 shares of unvested options outstanding as of September 30, 2017 was \$1.8 million over a weighted average period of 7.61 years.

Note 5 – Net Income per Common Share

Basic net income per common share is computed by dividing net income less dividends on preferred stock by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. Dilution is not applicable in periods of net loss. For the three and nine months ended September 30, 2018 and 2017, the difference in the weighted average number of basic and diluted common shares was due solely to the effects of outstanding stock options. No adjustments to net income were necessary in calculating basic and diluted net income per share. For the three months ended September 30, 2018 and 2017 the weighted average number of outstanding options considered to be anti-dilutive were 3,665 and 0 respectively. For the nine months ended September 30, 2018 and 2017 the weighted average number of outstanding options considered to be anti-dilutive were 1,896 and 0 respectively. At September 30, 2018, the Company has 6,465 shares of its Series F 6% noncumulative perpetual preferred stock (“Series F shares”) issued and outstanding, which are convertible into the Company’s common stock. The conversion of Series F shares to common shares was not included in the computation of diluted earnings per share as they would be anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	For the Three Months Ended September 30, 2018			2017		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share data)					
Net income available to common stockholders	\$ 4,331			\$ 3,051		
Basic earnings per share- Income available to Common stockholders	\$ 4,331	15,789	\$ 0.27	\$ 3,051	12,142	\$ 0.25
Effect of dilutive securities: Stock options	-	107		-	84	

Edgar Filing: BCB BANCORP INC - Form 10-Q

Diluted earnings per share- Income available to Common stockholders	\$ 4,331	15,896	\$ 0.27	\$ 3,051	12,226	\$ 0.25
--	----------	--------	---------	----------	--------	---------

For the Nine Months Ended September 30,
2018

2017

	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
--	-----------------------	-------------------------	---------------------	-----------------------	-------------------------	---------------------

(In thousands, except per share data)

Net income available
to common
stockholders

\$ 10,848

\$ 8,194

Basic earnings per
share-
Income available to
Common
stockholders

\$ 10,848

15,482

\$ 0.70

\$ 8,194

11,572

\$ 0.71

Effect of dilutive
securities:

Stock options

-

127

-

92

Diluted earnings per
share-
Income available to
Common
stockholders

\$ 10,848

15,609

\$ 0.69

\$ 8,194

11,664

\$ 0.70

Note 6 –Debt Securities Available for Sale

The following tables present by maturity the amortized cost, gross unrealized gains and losses on, and fair value of, securities available for sale as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
	(In thousands)	Gains	Losses	
Mortgage-backed securities:				
Due after one year through five years	\$ 5,677	\$ -	\$ 181	\$ 5,496
Due after five years through ten years	3,444	-	38	3,406
Due after ten years	113,469	26	6,230	107,265
Municipal obligations:				
Due after one year through five years	494	-	1	493
Due after five years through ten years	2,141	-	26	2,115
Due after ten years	1,040	-	4	1,036
	\$ 126,265	\$ 26	\$ 6,480	\$ 119,811

	December 31, 2017			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
	(In thousands)	Gains	Losses	
Mortgage-backed securities:				
Due after one year through five years	\$ 3,276	\$ 3	\$ 76	\$ 3,203
Due after five years through ten years	622	-	10	612
Due after ten years	110,156	44	2,222	107,978
Municipal obligations:				
Due within one year	2,506	-	4	2,502
	\$ 116,560	\$ 47	\$ 2,312	\$ 114,295

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
September 30, 2018						
Residential mortgage-backed securities	\$ 68,892	\$ 2,497	\$ 45,932	\$ 3,952	\$ 114,824	\$ 6,449
Municipal obligations	3,644	31	-	-	3,644	31
	\$ 72,536	\$ 2,528	\$ 45,932	\$ 3,952	\$ 118,468	\$ 6,480
December 31, 2017						
Residential mortgage-backed securities	\$ 94,909	\$ 1,951	\$ 12,309	\$ 357	\$ 107,218	\$ 2,308
Municipal obligations	2,502	4	-	-	2,502	4
	\$ 97,411	\$ 1,955	\$ 12,309	\$ 357	\$ 109,720	\$ 2,312

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether the Company intends to sell the security or more likely than not will be required to sell the security before its anticipated recovery. At September 30, 2018 and December 31, 2017, management performed an assessment for possible OTTI of the Company’s residential mortgage-backed securities on an issue-by-issue basis, relying on information obtained from various sources, including publicly available financial data, ratings by external agencies, brokers and other sources. The extent of individual analysis applied to each security depended on the size of the Company’s investment, as well as management’s perception of the credit risk associated with each security. Based on the results of the assessment, management believes impairment of these securities, at September 30, 2018 and December 31, 2017, to be temporary.

Note 7 - Loans Receivable and Allowance for Loan Losses

The following table presents the recorded investment in loans receivable as of September 30, 2018 and December 31, 2017 by segment and class:

	September 30, 2018	December 31, 2017
	(In thousands)	
Originated loans:		
Residential one-to-four family	\$ 207,238	\$ 182,544
Commercial and multi-family	1,530,966	1,213,390
Construction	74,029	50,497
Commercial business(1)	112,555	66,775
Home equity(2)	53,332	38,725
Consumer	1,278	1,183
Sub-total	1,979,398	1,553,114
Acquired loans initially recorded at fair value:		
Residential one-to-four family	45,515	47,808
Commercial and multi-family	159,523	46,609
Construction	1,572	-
Commercial business(1)	27,762	4,057
Home equity(2)	19,984	8,955
Consumer	90	122
Sub-total	254,446	107,551
Acquired loans with deteriorated credit:		
Residential one-to-four family	1,396	1,413
Commercial and multi-family	10,616	731
Construction	-	-
Commercial business(1)	1,995	-
Home equity(2)	398	-
Consumer	-	-
Sub-total	14,405	2,144
Total Loans	2,248,249	1,662,809
Less:		
Deferred loan fees, net	(1,744)	(1,757)
Allowance for loan losses	(21,504)	(17,375)

Sub-total	(23,248)	(19,132)
Total Loans, net	\$ 2,225,001	\$ 1,643,677

-
- (1) Includes business lines of credit.
(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

Purchased Credit Impaired Loans

The carrying value of loans acquired in the IAB acquisition and accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," was \$13.3 million at September 30, 2018, which was \$1.6 million less than the balance at the time of acquisition on April 17, 2018. Under ASC Subtopic 310-30, these loans, referred to as purchased credit impaired ("PCI") loans, may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The Company elected to account for the loans with evidence of credit deterioration individually rather than aggregate them into pools. The difference between the undiscounted cash flows expected at acquisition and the investment in the acquired loans, or the "accretable yield," is recognized as interest income utilizing the level-yield method over the life of each loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or as a valuation allowance.

Increases in expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the loans over the remaining life, while decreases in expected cash flows are recognized as impairments through a loss provision and an increase in the allowance for loan and lease losses. Valuation allowances (recognized in the allowance for loan and lease losses) on these impaired loans reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received).

The following table presents changes in the accretable yield for PCI loans:

	Nine months ended September 30, 2018
(Dollars in thousands)	
Accretable yield, beginning balance	\$ -
Acquisition of impaired loans	1,399
Accretable yield amortized to interest income	(388)
Reclassification from non-accretable difference	-
Accretable yield, ending balance	\$ 1,011

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

Allowance for Loan Losses

The allowance for loan loss is evaluated regularly by management and reflects consideration of all significant factors that affect the collectability of the loan portfolio. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a general allocated reserve for performing loans, a specific reserve for impaired loans and an unallocated portion.

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

- Lending Policies and Procedures
- Personnel responsible for the particular portfolio - relative to experience and ability of staff
- Trend for past due, criticized and classified loans
- Relevant economic factors
- Quality of the loan review system
- Value of collateral for collateral dependent loans
- The effect of any concentrations of credit and the changes in the level of such concentrations
- Other external factors

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

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

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

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

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

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

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

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

An unallocated component is maintained to cover uncertainties that could affect management's estimates of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in underlying

assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Company's allowance for loan losses for the three months ended September 30, 2018. The table also details the amount of total loans receivable, loans receivable that are evaluated individually and collectively for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class, as of September 30, 2018 (In thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Commercial Home Equity (2)	Consumer	Unallocated	Total
Allowance for loan losses:								
Originated Loans:	\$ 2,249	\$ 13,084	\$ 516	\$ 3,400	\$ 447	\$ 41	\$ 288	\$ 20,005
Acquired loans initially recorded at fair value:	418	92	-	40	-	-	-	550
Acquired loans with deteriorated credit:	53	12	-	-	-	-	-	65
Beginning Balance, June 30, 2018	2,720	13,188	516	3,440	447	41	288	20,640
Charge-offs:								
Originated Loans:	-	-	-	10	9	42	-	61
Sub-total:	-	-	-	10	9	42	-	61
Recoveries:								
Acquired loans initially recorded at fair value:	-	-	-	15	3	-	-	18
Sub-total:	-	-	-	15	3	-	-	18
Provisions:								
Originated Loans:	137	1,199	136	(179)	(125)	1	(269)	90
Acquired loans initially recorded at fair value:	(138)	(92)	-	(55)	(3)	-	-	(288)
Acquired loans with deteriorated credit:	(15)	241	-	63	6	-	-	285
Sub-total:	(16)	1,348	136	(171)	(122)	1	(269)	90
Totals:								
Originated Loans:	2,386	14,283	652	3,211	313	-	19	20,864
Acquired loans initially recorded at fair value:	280	-	-	-	-	-	-	280
Acquired loans with deteriorated credit:	38	253	-	63	6	-	-	360
Ending Balance, September 30, 2018	\$ 2,704	\$ 14,536	\$ 652	\$ 3,274	\$ 319	\$ -	\$ 19	\$ 21,504

Loans Receivable:

Ending Balance Originated Loans:	\$ 207,238	\$ 1,530,966	\$ 74,029	\$ 112,555	\$ 53,332	\$ 1,278	\$ -	\$ 1
Ending Balance Acquired loans initially recorded at fair value:	45,515	159,523	1,572	27,762	19,984	90	-	2
Ending Balance Acquired loans with deteriorated credit:	1,396	10,616	-	1,995	398	-	-	1
Total Gross Loans:	\$ 254,149	\$ 1,701,105	\$ 75,601	\$ 142,312	\$ 73,714	\$ 1,368	\$ -	\$ 2

Ending Balance: Loans individually evaluated for impairment:

Ending Balance Originated Loans:	\$ 6,207	\$ 12,811	\$ -	\$ 2,452	\$ 1,033	\$ -	\$ -	\$ 2
Ending Balance Acquired loans initially recorded at fair value:	6,584	4,913	-	349	287	-	-	1
Ending Balance Acquired loans with deteriorated credit:	1,396	10,288	-	857	74	-	-	1
Ending Balance Loans individually evaluated for impairment:	\$ 14,187	\$ 28,012	\$ -	\$ 3,658	\$ 1,394	\$ -	\$ -	\$ 4

Ending Balance: Loans collectively evaluated for impairment:

Ending Balance Originated Loans:	\$ 202,325	\$ 1,518,155	\$ 74,029	\$ 110,103	\$ 52,299	\$ 1,278	\$ -	\$ 1
Ending Balance Acquired loans initially recorded at fair value:	37,637	154,610	1,572	27,413	19,697	90	-	2
Ending Balance Acquired loans with deteriorated credit:	-	328	-	1,138	324	-	-	1
Ending Balance Loans collectively evaluated for impairment:	\$ 239,962	\$ 1,673,093	\$ 75,601	\$ 138,654	\$ 72,320	\$ 1,368	\$ -	\$ 2

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Edgar Filing: BCB BANCORP INC - Form 10-Q

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table set forth the activity in the Company's allowance for loan losses for the nine months ended September 30, 2018, and the related portion of the allowances for loan losses that is allocated to each loan class (In thousands):

	Residential	Commercial & Multi-family	Construction	Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for credit losses:								
Originated Loans:	\$ 2,368	\$ 11,656	\$ 518	\$ 2,018	\$ 338	\$ 6	\$ 177	\$ 17,081
Acquired loans initially recorded at fair value:	242	-	-	-	-	-	-	242
Acquired loans with deteriorated credit:	40	12	-	-	-	-	-	52
Beginning Balance, December 31, 2017	2,650	11,668	518	2,018	338	6	177	17,375
Charge-offs:								
Originated Loans:	302	-	-	15	9	42	-	368
Acquired loans initially recorded at fair value:	72	-	-	-	6	-	-	78
Sub-total:	374	-	-	15	15	42	-	446
Recoveries:								
Originated Loans:	1	-	-	6	-	-	-	7
Acquired loans initially recorded at fair value:	85	-	-	27	3	-	-	115
Acquired loans with deteriorated credit:	-	-	-	143	1	-	-	144
Sub-total:	86	-	-	176	4	-	-	266
Provisions:								
Originated Loans:	319	2,627	134	1,202	(16)	36	(158)	4,144
Acquired loans initially recorded at fair value:	25	-	-	(27)	3	-	-	1
Acquired loans with deteriorated credit:	(2)	241	-	(80)	5	-	-	164
Sub-total:	342	2,868	134	1,095	(8)	36	(158)	4,309
Totals:								
Originated Loans:	2,386	14,283	652	3,211	313	-	19	20,864
	280	-	-	-	-	-	-	280

Edgar Filing: BCB BANCORP INC - Form 10-Q

Acquired loans initially recorded at fair value:

Acquired loans with deteriorated credit:	38	253	-	63	6	-	-	360
Ending Balance, September 30, 2018	\$ 2,704	\$ 14,536	\$ 652	\$ 3,274	\$ 319	\$ -	\$ 19	\$ 21,504

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table details the amount of total loans receivable that are evaluated individually and collectively for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class, as of December 31, 2017 (In thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home Equity (2)	Consumer	Total
Allowance for credit losses:							
Originated Loans:	\$ 2,098	\$ 10,621	\$ 736	\$ 3,079	\$ 374	\$ 2	\$ 16,979
Acquired loans initially recorded at fair value:	170	-	-	-	4	-	174
Acquired loans with deteriorated credit:	43	13	-	-	-	-	56
Beginning Balance, December 31, 2016	2,311	10,634	736	3,079	378	2	17,209
Charge-offs:							
Originated Loans:	-	190	-	1,553	-	11	1,754
Acquired loans initially recorded at fair value:	336	-	-	-	54	-	390
Acquired loans with deteriorated credit:	-	-	-	-	-	-	-
Sub-total:	336	190	-	1,553	54	11	2,144
Recoveries:							
Originated Loans:	-	182	-	-	-	-	182
Acquired loans recorded	-	-	-	-	-	-	-

Edgar Filing: BCB BANCORP INC - Form 10-Q

at fair value:							
Acquired loans with deteriorated credit:	-	-	-	18	-	-	18
Sub-total:	-	182	-	18	-	-	200
Provisions:							
Originated Loans:	270	1,043	(218)	492	(36)	15	1,674
Acquired loans initially recorded at fair value:							
Acquired loans with deteriorated credit:	408	-	-	-	50	-	458
Sub-total:	(3)	(1)	-	(18)	-	-	(22)
Sub-total:	675	1,042	(218)	474	14	15	2,110
Totals:							
Originated Loans:	2,368	11,656	518	2,018	338	6	17,081
Acquired loans initially recorded at fair value:							
Acquired loans with deteriorated credit:	242	-	-	-	-	-	242
Ending Balance, December 31, 2017	40	12	-	-	-	-	52
Loans Receivables:	\$	\$	\$	\$	\$	\$	\$
Ending Balance	2,650	11,668	518	2,018	338	6	17,375
Originated Loans:							
Ending Balance	182,544	1,213,390	50,497	66,775	38,725	1,183	1,553,114
Acquired Loans:							
Ending Balance	47,808	46,609	-	4,057	8,955	122	107,551
Acquired loans with deteriorated credit:							
Ending Balance	1,413	731	-	-	-	-	2,144

Edgar Filing: BCB BANCORP INC - Form 10-Q

credit:							
Total Gross Loans:	\$ 231,765	\$ 1,260,730	\$ 50,497	\$ 70,832	\$ 47,680	\$ 1,305	\$ 1,662,809
Ending Balance: Loans individually evaluated for impairment:							
Ending Balance Originated Loans:	\$ 7,944	\$ 12,212	\$ -	\$ 1,780	\$ 1,042	\$ -	\$ 22,978
Ending Balance Acquired Loans:	\$ 7,548	\$ 5,032	\$ -	\$ -	\$ 302	\$ -	\$ 12,882
Ending Balance Acquired loans with deteriorated credit:	\$ 1,413	\$ 513	\$ -	\$ -	\$ -	\$ -	\$ 1,926
Ending Balance Loans individually evaluated for impairment:	\$ 16,905	\$ 17,757	\$ -	\$ 1,780	\$ 1,344	\$ -	\$ 37,786
Ending Balance: Loans collectively evaluated for impairment:							
Ending Balance Originated Loans:	\$ 174,600	\$ 1,201,178	\$ 50,497	\$ 64,995	\$ 37,683	\$ 1,183	\$ 1,530,136
Ending Balance Acquired Loans:	\$ 40,260	\$ 41,577	\$ -	\$ 4,057	\$ 8,653	\$ 122	\$ 94,669
Ending Balance Acquired loans with deteriorated credit:	\$ -	\$ 218	\$ -	\$ -	\$ -	\$ -	\$ 218

Ending Balance Loans collectively evaluated for impairment:	\$ 214,860	\$ 1,242,973	\$ 50,497	\$ 69,052	\$ 46,336	\$ 1,305	\$ 1,625,023
---	------------	--------------	-----------	-----------	-----------	----------	--------------

- (1) Includes business lines of credit.
- (2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Company's allowance for loan losses for the three months ended September 30, 2017. The table also details the amount of total loans receivable that are evaluated individually and collectively for impairment, and the related portion of the allowance for loan losses that is allocated to each loan class, as of September 30, 2017 (In thousands):

	Residential	Commercial & Multi-family	Construction	Commercial Business (1)	Home Equity (2)	Consumer	Unallocated	Total
Allowance for credit losses:								
Originated Loans:	\$ 2,092	\$ 11,182	\$ 753	\$ 3,229	\$ 347	\$ 5	\$ 99	\$ 17,607
Acquired loans initially recorded at fair value:	203	-	-	-	-	-	-	203
Acquired loans with deteriorated credit:	41	13	-	-	-	-	-	54
Beginning Balance, June 30, 2017	2,336	11,195	753	3,229	347	5	99	17,904
Charge-offs:								
Originated Loans:	-	-	-	1	-	5	-	6
Acquired loans initially recorded at fair value:	-	-	-	-	20	-	-	20
Sub-total:	-	-	-	1	20	5	-	26
Provisions:								
Originated Loans:	234	304	(135)	46	(20)	7	7	443
Acquired loans initially recorded at fair value:	47	3	-	-	20	-	-	70
Acquired loans with deteriorated credit:	(1)	(1)	-	-	-	-	-	(2)
Sub-total:	280	306	(135)	46	-	7	7	511
Totals:								
Originated Loans:	2,326	11,486	618	3,274	327	7	106	18,084
Acquired loans initially recorded at fair value:	250	3	-	-	-	-	-	253
Acquired loans with deteriorated credit:	40	12	-	-	-	-	-	52
Ending Balance, September 30, 2017	\$ 2,616	\$ 11,501	\$ 618	\$ 3,274	\$ 327	\$ 7	\$ 106	\$ 18,449
Loans Receivable:								
Ending Balance Originated Loans:	\$ 178,533	1,182,098	60,699	63,705	38,297	1,239	-	\$ 1,424,571
	50,602	49,546	-	3,355	9,216	156	-	113,814

Edgar Filing: BCB BANCORP INC - Form 10-Q

Ending Balance Acquired loans initially recorded at fair value:									
Ending Balance Acquired loans with deteriorated credit:	1,419	737	-	-	-	-	-	-	2,
Total Gross Loans:	\$ 230,554	\$ 1,232,381	\$ 60,699	\$ 67,060	\$ 47,513	\$ 1,395	\$ -	\$ -	\$ 1,
Ending Balance: Loans individually evaluated for impairment:									
Ending Balance Originated Loans:	\$ 8,257	12,469	-	3,539	1,055	-	-	-	\$ 25
Ending Balance Acquired loans initially recorded at fair value:	7,647	5,662	-	-	429	-	-	-	13
Ending Balance Acquired loans with deteriorated credit:	1,419	515	-	-	-	-	-	-	1,9
Ending Balance Loans individually evaluated for impairment:	\$ 17,323	\$ 18,646	\$ -	\$ 3,539	\$ 1,484	\$ -	\$ -	\$ -	\$ 40
Ending Balance: Loans collectively evaluated for impairment:									
Ending Balance Originated Loans:	\$ 170,276	1,169,629	60,699	60,166	37,242	1,239	-	-	\$ 1,4
Ending Balance Acquired loans initially recorded at fair value:	42,955	43,884	-	3,355	8,787	156	-	-	99
Ending Balance Acquired loans with deteriorated credit:	-	222	-	-	-	-	-	-	22
Ending Balance Loans collectively evaluated for impairment:	\$ 213,231	\$ 1,213,735	\$ 60,699	\$ 63,521	\$ 46,029	\$ 1,395	\$ -	\$ -	\$ 1,5

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the activity in the Company's allowance for loans losses for the nine months ended September 30, 2017, and the related portion of the allowance for loan losses that is allocated to each loan class (in thousands):

	Residential	Commercial & Multi-family	Construction	Business (1)	Commercial Home Equity (2)	Consumer	Unallocated	Total
Allowance for credit losses:								
Originated Loans:	\$ 2,098	\$ 10,621	\$ 736	\$ 3,079	\$ 374	\$ 2	\$ 69	\$ 16,979
Acquired loans initially recorded at fair value:	170	-	-	-	4	-	-	174
Acquired loans with deteriorated credit:	43	13	-	-	-	-	-	56
Beginning Balance, December 31, 2016	2,311	10,634	736	3,079	378	2	69	17,209
Charge-offs:								
Originated Loans:	-	190	-	1	-	11	-	202
Acquired loans initially recorded at fair value:	308	-	-	-	54	-	-	362
Sub-total:	308	190	-	1	-	-	-	564
Recoveries:								
Acquired loans with deteriorated credit:	-	-	-	19	-	-	-	19
Sub-total:	-	-	-	19	-	-	-	19
Provisions:								
Originated Loans:	228	1,055	(118)	196	(47)	16	37	1,367
Acquired loans initially recorded at fair value:	388	3	-	-	50	-	-	441
Acquired loans with deteriorated credit:	(3)	(1)	-	(19)	-	-	-	(23)
Sub-total:	613	1,057	(118)	177	3	16	37	1,785
Totals:								
Originated Loans:	2,326	11,486	618	3,274	327	7	106	18,144
Acquired loans initially recorded at fair value:	250	3	-	-	-	-	-	253
Acquired loans with deteriorated credit:	40	12	-	-	-	-	-	52
Ending Balance, September 30, 2017	\$ 2,616	\$ 11,501	\$ 618	\$ 3,274	\$ 327	\$ 7	\$ 106	\$ 18,449

-
- (1) Includes business lines of credit.
 - (2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The table below sets forth the amounts and types of non-accrual loans in the Company's loan portfolio as of September 30, 2018 and December 31, 2017. Loans are placed on non-accrual status when they become more than 90 days delinquent, or when the collection of principal and/or interest become doubtful. As of September 30, 2018 and December 31, 2017, total non-accrual loans differed from the amount of total loans past due greater than 90 days due to troubled debt restructuring of loans which are maintained on non-accrual status for a minimum of six months and until the borrower has demonstrated its ability to satisfy the terms of the restructured loan.

	As of September 30, 2018 (In thousands)	As of December 31, 2017 (In thousands)
Non-Accruing Loans:		
Originated loans:		
Residential one-to-four family	\$ 1,457	\$ 2,545
Commercial and multi-family	5,572	6,762
Commercial business(1)	251	299
Home equity(2)	338	201
Sub-total:	7,618	9,807
Acquired loans initially recorded at fair value:		
Residential one-to-four family	2,590	2,372
Commercial and multi-family	590	850
Commercial business(1)	295	-
Home equity(2)	-	7
Sub-total:	3,475	3,229
Total	\$ 11,093	\$ 13,036

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Nonaccrual loans in the preceding table do not include loans acquired with deteriorated credit quality which were recorded at their fair value at acquisition and totaled \$10.8 million at September 30, 2018, and \$0 at December 31, 2017.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes the average recorded investment and interest income recognized on impaired loans with no related allowance recorded by portfolio class for the three months and nine months ended September 30, 2018 and 2017 (In thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,		
	2018	2018	2017	2017	2018	2018	2017
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Originated loans With no related allowance recorded:							
Residential one-to-four family	\$ 1,921	\$ 7	\$ 2,761	\$ 10	\$ 1,910	\$ 22	\$ 3,121
Commercial and Multi-family	12,345	86	12,269	68	12,090	257	12,397
Commercial business(1)	1,074	43	664	-	910	130	528
Home equity(2)	912	7	879	10	910	22	875
Sub-total:	\$ 16,252	\$ 143	\$ 16,573	\$ 88	\$ 15,820	\$ 431	\$ 16,921
Acquired loans initially recorded at fair value With no related allowance recorded:							
Residential one-to-four family	\$ 3,349	\$ 16	\$ 4,360	\$ 35	\$ 3,443	\$ 76	\$ 4,970
Commercial and Multi-family	3,733	53	4,036	56	3,760	168	4,070

Edgar Filing: BCB BANCORP INC - Form 10-Q

Commercial business(1)	51	1	-	-	34	2	-
Home equity(2)	223	3	462	-	230	10	533
Consumer	11	-	-	4	7	-	-
Sub-total	\$ 7,367	\$ 73	\$ 8,858	\$ 95	\$ 7,474	\$ 256	\$ 9,573
Acquired loans with deteriorated credit							
With no related allowance recorded:							
Residential one-to-four family(3)	\$ 1,030	\$ 16	\$ 1,422	\$ 22	\$ 1,032	\$ 48	\$ 1,426
Commercial and Multi-family(3)	10,980	7	517	7	7,490	20	518
Construction(3)	1,335	-	-	-	890	-	-
Commercial business(1)(3)	922	-	-	-	614	-	-
Home equity(2)(3)	226	-	-	-	151	-	-
Consumer(3)	27	-	-	-	18	-	-
Sub-total:	\$ 14,520	\$ 23	\$ 1,939	\$ 29	\$ 10,195	\$ 68	\$ 1,944
Total Impaired Loans							
With no related allowance recorded:							
	\$ 38,139	\$ 239	\$ 27,370	\$ 212	\$ 33,489	\$ 755	\$ 28,438

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

(3) Does not include accretable yield on loans acquired with deteriorated credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes the average recorded investment and interest income recognized on impaired loans with allowance recorded by portfolio class for the three and nine months ended September 30, 2018 and 2017. (In thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,		
	2018	2018	2017	2017	2018	2018	2017
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
Originated loans with an allowance recorded:							
Residential one-to-four family	\$ 4,310	\$ 47	\$ 5,887	\$ 46	\$ 4,601	\$ 141	\$ 6,075
Commercial and Multi-family	485	-	357	-	485	-	561
Commercial business(1)	1,266	22	3,196	20	1,199	65	3,411
Home equity(2)	155	2	196	2	155	5	242
Consumer	21	-	-	-	14	-	-
Sub-total:	\$ 6,237	\$ 71	\$ 9,636	\$ 68	\$ 6,454	\$ 211	\$ 10,289
Acquired loans initially recorded at fair value with an allowance recorded:							
Residential one-to-four	\$ 3,210	\$ 24	\$ 3,350	\$ 21	\$ 3,384	\$ 73	\$ 2,842

Edgar Filing: BCB BANCORP INC - Form 10-Q

family Commercial and Multi-family Commercial business(1)	916	4	1,712	16	919	13	1,714
Home equity(2)	85	1	96	2	85	4	99
Sub-total	\$ 4,335	\$ 29	\$ 5,158	\$ 39	\$ 4,470	\$ 90	\$ 4,655
Acquired loans with deteriorated credit with an allowance recorded:							
Residential one-to-four family	\$ 369	\$ 5	\$ -	\$ -	\$ 369	\$ 10	\$ -
Sub-total:	\$ 369	\$ 5	\$ -	\$ -	\$ 369	\$ 10	\$ -
Total Impaired Loans with an allowance recorded:	\$ 10,941	\$ 105	\$ 14,794	\$ 107	\$ 11,293	\$ 311	\$ 14,944

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes the recorded investment and unpaid principal balances where there is no related allowance on impaired loans by portfolio class at

September 30, 2018 and December 31, 2017. (In thousands):

	As of September 30, 2018			As of December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans with no related allowance recorded:						
Residential one-to-four family	\$ 1,908	\$ 1,964	\$ -	\$ 2,073	\$ 2,236	\$ -
Commercial and multi-family	12,326	12,863	-	12,212	12,763	-
Commercial business(1)	1,043	3,652	-	181	908	-
Home equity(2)	879	898	-	885	932	-
Sub-total:	\$ 16,156	\$ 19,377	\$ -	\$ 15,351	\$ 16,839	\$ -
Acquired loans initially recorded at fair value with no related allowance recorded:						
Residential one-to-four family	\$ 3,560	\$ 3,731	\$ -	\$ 4,119	\$ 4,285	\$ -
Commercial and Multi-family	4,001	4,001	-	3,772	3,773	-
Commercial business(1)	102	605	-	-	-	-
Home equity(2)	202	202	-	216	268	-
Sub-total:	\$ 7,865	\$ 8,539	\$ -	\$ 8,107	\$ 8,326	\$ -
Acquired loans with deteriorated						

credit with no related allowance recorded:

Residential one-to-four family	\$ 1,028	\$ 1,587	\$ -	\$ 1,413	\$ 2,031	\$ -
Commercial and Multi-family	10,288	11,820	-	513	537	-
Commercial business(1)	857	6,987	-	-	-	-
Home equity(2)	74	81	-	-	-	-
Sub-total:	\$ 12,247	\$ 20,475	\$ -	\$ 1,926	\$ 2,568	\$ -
Total Impaired Loans with no related allowance recorded:	\$ 36,268	\$ 48,391	\$ -	\$ 25,384	\$ 27,733	\$ -

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table summarizes the recorded investment, unpaid principal balance, and the related allowance on impaired loans by portfolio class at September 30, 2018 and December 31, 2017. (In thousands):

	As of September 30, 2018			As of December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Originated loans with an allowance recorded:						
Residential one-to-four family	\$ 4,299	\$ 4,299	\$ 241	\$ 5,871	\$ 5,871	\$ 508
Commercial and Multi-family	485	526	112	-	-	-
Commercial business(1)	1,409	1,578	898	1,599	2,431	1,033
Home equity(2)	154	154	22	157	157	25
Sub-total:	\$ 6,347	\$ 6,557	\$ 1,273	\$ 7,627	\$ 8,459	\$ 1,566
Acquired loans initially recorded at fair value with an allowance recorded:						
Residential one-to-four family	\$ 3,024	\$ 3,174	\$ 493	\$ 3,429	\$ 3,580	\$ 281
Commercial and Multi-family	912	965	284	1,260	1,313	179
Commercial business(1)	247	247	62	-	-	-
Home equity(2)	85	85	6	86	86	7
Sub-total	\$ 4,268	\$ 4,471	\$ 845	\$ 4,775	\$ 4,979	\$ 467
Acquired loans with deteriorated credit with an allowance recorded:						

Edgar Filing: BCB BANCORP INC - Form 10-Q

Residential one-to-four family	\$ 368	\$ 417	\$ 11	\$ -	\$ -	\$ -
Sub-total:	\$ 368	\$ 417	\$ 11	\$ -	\$ -	\$ -
Total Impaired Loans with an allowance recorded:	\$ 10,983	\$ 11,445	\$ 2,129	\$ 12,402	\$ 13,438	\$ 2,033
Total Impaired Loans with no related allowance recorded:	\$ 36,268	\$ 48,391	\$ -	\$ 25,384	\$ 27,733	\$ -
Total Impaired Loans:	\$ 47,251	\$ 59,836	\$ 2,129	\$ 37,786	\$ 41,171	\$ 2,033

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

A troubled debt restructured (“TDR”) is a loan that has been modified whereby the Company has agreed to make certain concessions to a borrower to meet the needs of both the borrower and the Company to maximize the ultimate recovery of a loan. A TDR occurs when a borrower is experiencing, or is expected to experience, financial difficulties and the loan is modified using a concession that would otherwise not be granted to the borrower. The types of concessions granted generally include, but are not limited to interest rate reductions, limitations on the accrued interest charged, term extensions, and deferment of principal. All TDRs were considered impaired and therefore were individually evaluated for impairment in the calculation of the allowance for loan losses. Prior to their classification as TDRs, certain of these loans had been collectively evaluated for impairment in the calculation of the allowance for loan losses.

	At September 30, 2018 (In thousands)	At December 31, 2017
Recorded investment in TDRs:		
Accrual status	\$ 20,581	\$ 20,058
Non-accrual status	7,512	8,408
Total recorded investment in TDRs	\$ 28,093	\$ 28,466

There were no TDRs added during the three months ended September 30, 2018.

The following table summarizes information with regard to troubled debt restructurings which occurred during the three months ended September 30, 2017.

Three Months Ended September 30, 2017 (Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Acquired loans initially recorded at fair value:			
Residential one-to-four family	1	\$ 212	\$ 243

The loan included above is considered a TDR as a result of the Company implementing one or more of the following concessions: granting a material extension of time, issuing a forbearance agreement, adjusting the interest rate to a below market rate and/or accepting interest only for a period of time or a change in amortization period.

Edgar Filing: BCB BANCORP INC - Form 10-Q

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

Troubled debt restructurings for which there was a payment default within twelve months of restructuring during the three months ended September 30, 2018 totaled \$640,000 for one contract and \$1,174,000 for four contracts during the three months ended September 30, 2017.

The following tables summarize information with regards to troubled debt restructuring which occurred during the nine months ended September 30, 2018 and 2017 (dollars in thousands):

Nine Months Ended September 30, 2018	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Originated loans:			
Residential one-to-four family	1	\$ 640	\$ 640

Nine Months Ended September 30, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Originated loans:			
Residential one-to-four family	2	\$ 1,445	\$ 1,556
Commercial and multi-family	3	4,441	4,608
Sub-total:	5	5,886	6,164
Acquired loans initially recorded at fair value:			
Residential one-to-four family	5	1,052	1,266
Sub-total:	5	1,052	1,266
Total	10	\$ 6,938	\$ 7,430

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

Troubled debt restructurings for which there was a payment default within twelve months of restructuring during the nine months ended September 30th, 2018 totaled \$640,000 for one contract in 2018 and \$1,174,000 for four contracts during the three months ended September 30, 2017.

The following table sets forth the delinquency status of total loans receivable as of September 30, 2018:

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
	(In thousands)						
Originated loans:							
Residential one-to-four family	\$ 2,418	\$ 1,237	\$ 1,566	\$ 5,221	\$ 202,017	\$ 207,238	\$ 367
Commercial and multi-family	13,361	512	485	14,358	1,516,608	1,530,966	-
Construction	-	-	-	-	74,029	74,029	-
Commercial business(1)	1,011	-	1,004	2,015	110,540	112,555	799
Home equity(2)	799	109	44	952	52,380	53,332	-
Consumer	-	-	-	-	1,278	1,278	-
Sub-total:	\$ 17,589	\$ 1,858	\$ 3,099	\$ 22,546	\$ 1,956,852	\$ 1,979,398	\$ 1,166
Acquired loans initially recorded at fair value:							
Residential one-to-four family	\$ 689	\$ 366	\$ 2,040	\$ 3,095	\$ 42,420	45,515	\$ 3
Commercial and multi-family	1,225	1,922	709	3,856	155,667	159,523	119
Construction	594	-	-	594	978	1,572	-
Commercial business(1)	871	2,108	2,272	5,251	22,511	27,762	-
Home equity(2)	295	47	-	342	19,642	19,984	-
Consumer	-	-	-	-	90	90	-
Sub-total:	\$ 3,674	\$ 4,443	\$ 5,021	\$ 13,138	\$ 241,308	\$ 254,446	\$ 122
Acquired loans with deteriorated credit:							
Residential one-to-four family	\$ -	\$ -	\$ -	\$ -	\$ 1,396	1,396	\$ -
Commercial and multi-family	-	-	8,955	8,955	1,661	10,616	-
Commercial business(1)	-	-	818	818	1,177	1,995	-
Home equity(2)	200	-	52	252	146	398	-

Edgar Filing: BCB BANCORP INC - Form 10-Q

Sub-total:	\$ 200	\$ -	\$ 9,825	\$ 10,025	\$ 4,380	\$ 14,405	\$ -
Total	\$ 21,463	\$ 6,301	\$ 17,945	\$ 45,709	\$ 2,202,540	\$ 2,248,249	\$ 1,288

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Edgar Filing: BCB BANCORP INC - Form 10-Q

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table sets forth the delinquency status of total loans receivable at December 31, 2017:

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
	(In thousands)						
Originated loans:							
Residential one-to-four family	\$ 1,358	\$ 1,604	\$ 2,273	\$ 5,235	\$ 177,309	\$ 182,544	\$ -
Commercial and multi-family	20,210	887	-	21,097	1,192,293	1,213,390	-
Construction	5,687	-	-	5,687	44,810	50,497	-
Commercial business(1)	161	640	103	904	65,871	66,775	-
Home equity(2)	314	215	44	573	38,152	38,725	-
Consumer	8	-	-	8	1,175	1,183	-
Sub-total:	\$ 27,738	\$ 3,346	\$ 2,420	\$ 33,504	\$ 1,519,610	\$ 1,553,114	\$ -
Acquired loans initially recorded at fair value:							
Residential one-to-four family	\$ 643	\$ 379	\$ 1,738	\$ 2,760	\$ 45,048	47,808	\$ 315
Commercial and multi-family	1,539	-	850	2,389	44,220	46,609	-
Commercial business(1)	92	-	-	92	3,965	4,057	-
Home equity(2)	240	324	7	571	8,384	8,955	-
Consumer	-	-	-	-	122	122	-
Sub-total:	\$ 2,514	\$ 703	\$ 2,595	\$ 5,812	\$ 101,739	\$ 107,551	\$ 315
Acquired loans with deteriorated credit:							
Residential one-to-four family	\$ -	\$ -	\$ -	\$ -	\$ 1,413	\$ 1,413	\$ -
Commercial and multi-family	-	-	-	-	731	731	-
Sub-total:	\$ -	\$ -	\$ -	\$ -	\$ 2,144	\$ 2,144	\$ -
Total	\$ 30,252	\$ 4,049	\$ 5,015	\$ 39,316	\$ 1,623,493	\$ 1,662,809	\$ 315

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

Criticized and Classified Assets.

Company policies provide for a classification system for problem assets. Under this classification system, problem assets are classified as “substandard,” “doubtful,” or “loss.”

When the Company classifies problem assets, the Company may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining our regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital. As of September 30, 2018, we had \$0 in assets classified as losses, and \$30.2 million in assets classified as substandard, all of which \$30.2 million were classified as impaired. The loans classified as substandard represent primarily commercial loans secured either by residential real estate, commercial real estate or heavy equipment. The loans that have been classified substandard were classified as such primarily due to payment status, because updated financial information has not been timely provided, or the collateral underlying the loan is in the process of being revalued.

The Company’s internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good and watch list (risk ratings 1-5) are treated as “pass” for grading purposes. The “criticized” risk rating (6) and the “classified” risk ratings (7-9) are detailed below:

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

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

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

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

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of September 30, 2018. (In thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Originated loans:						
Residential one-to-four family	\$ 201,870	\$ 3,272	\$ 2,096	\$ -	\$ -	\$ 207,238
Commercial and multi-family	1,516,732	3,684	10,550	-	-	1,530,966
Construction	74,029	-	-	-	-	74,029
Commercial business(1)	108,487	1,616	2,452	-	-	112,555
Home equity(2)	52,547	395	390	-	-	53,332
Consumer	1,270	8	-	-	-	1,278
Sub-total:	\$ 1,954,935	\$ 8,975	\$ 15,488	\$ -	\$ -	\$ 1,979,398
Acquired loans initially recorded at fair value:						
Residential one-to-four family	\$ 42,130	\$ 472	\$ 2,913	\$ -	\$ -	45,515
Commercial and multi-family	155,862	2,749	912	-	-	159,523
Construction	1,572	-	-	-	-	1,572
Commercial business(1)	27,419	48	295	-	-	27,762
Home equity(2)	19,938	19	27	-	-	19,984
Consumer	90	-	-	-	-	90
Sub-total:	\$ 247,011	\$ 3,288	\$ 4,147	\$ -	\$ -	\$ 254,446
Acquired loans with deteriorated credit:						
Residential one-to-four family	\$ 163	\$ 564	\$ 669	\$ -	\$ -	1,396
Commercial and multi-family	1,002	505	9,109	-	-	10,616
Construction	-	-	-	-	-	-
Commercial business(1)	1,281	-	714	-	-	1,995
Home equity(2)	346	-	52	-	-	398
Consumer	-	-	-	-	-	-
Sub-total:	\$ 2,792	\$ 1,069	\$ 10,544	\$ -	\$ -	\$ 14,405
Total Gross Loans	\$ 2,204,738	\$ 13,332	\$ 30,179	\$ -	\$ -	\$ 2,248,249

- (1) Includes business lines of credit.
- (2) Includes home equity lines of credit.

30

Edgar Filing: BCB BANCORP INC - Form 10-Q

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the loan portfolio types summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful, and loss within the Company's internal risk rating system as of December 31, 2017. (In thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Originated loans:						
Residential one-to-four family	\$ 174,985	\$ 5,014	\$ 2,545	\$ -	\$ -	\$ 182,544
Commercial and multi-family	1,199,786	2,676	10,928	-	-	1,213,390
Construction	50,262	235	-	-	-	50,497
Commercial business(1)	63,323	1,672	1,738	-	42	66,775
Home equity(2)	38,018	451	256	-	-	38,725
Consumer	1,177	6	-	-	-	1,183
Sub-total:	\$ 1,527,551	\$ 10,054	\$ 15,467	\$ -	\$ 42	\$ 1,553,114
Acquired loans initially recorded at fair value:						
Residential one-to-four family	\$ 44,472	\$ 481	\$ 2,855	\$ -	\$ -	47,808
Commercial and multi-family	43,569	402	2,638	-	-	46,609
Construction	-	-	-	-	-	-
Commercial business(1)	4,057	-	-	-	-	4,057
Home equity(2)	8,896	20	32	-	7	8,955
Consumer	122	-	-	-	-	122
Sub-total:	\$ 101,116	\$ 903	\$ 5,525	\$ -	\$ 7	\$ 107,551
Acquired loans with deteriorated credit:						
Residential one-to-four family	\$ 153	\$ 571	\$ 689	\$ -	\$ -	1,413
Commercial and multi-family	218	513	-	-	-	731
Construction	-	-	-	-	-	-
Commercial business(1)	-	-	-	-	-	-
Home equity(2)	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Sub-total:	\$ 371	\$ 1,084	\$ 689	\$ -	\$ -	\$ 2,144
Total Gross Loans	\$ 1,629,038	\$ 12,041	\$ 21,681	\$ -	\$ 49	\$ 1,662,809

(1) Includes business lines of credit.

(2) Includes home equity lines of credit.

31

Note 7 - Loans Receivable and Allowance for Loan Losses (Continued)

The following table presents the unpaid principal balance and the related recorded investment of acquired loans included in the Company's Consolidated Statements of Financial Condition. (In thousands):

	September 30, 2018	December 31, 2017
Unpaid principal balance	\$ 320,823	\$ 114,542
Recorded investment	268,851	109,695

The following table presents changes in the accretable discount on loans acquired with deteriorated credit quality for which the Company applies the provisions of ASC 310-30 (In thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, Beginning of Period	\$ 3,253	\$ 2,398	\$ 2,230	\$ 2,558
Additions from acquisition of IAB	-	-	1,399	-
Accretion recorded to interest income	(263)	(84)	(639)	(244)
Balance, End of Period	\$ 2,990	\$ 2,314	\$ 2,990	\$ 2,314

There were no transfers from non-accretable differences for the periods stated above.

Note 8 – Stockholders' Equity

On April 17, 2018, the Company issued 631,896 shares of its common stock as well as 438,889 shares of series E 6% non-cumulative perpetual preferred stock and 6,465 shares of series F 6% non-cumulative perpetual preferred stock in connection with its acquisition of IA Bancorp, Inc.

On May 16, 2018, the Company issued 82,950 shares of its common stock in connection with the conversion of 438,889 shares of Series E preferred stock assumed with the acquisition of IA Bancorp, Inc.

Note 9 – Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill and core deposit intangibles in connection with the acquisition of IA Bancorp, Inc. as of April 17, 2018. The initial recording of goodwill and other intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets and assumed liabilities. Goodwill is not amortized but is subject to annual tests for impairment or more often if events or circumstances indicate it may be impaired. The goodwill impairment analysis is generally a two-step test. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company is not required to calculate the fair value of the reporting unit if, based on a qualitative assessment, it is determined that it was more likely than not that the unit's fair value was not less than its carrying amount. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional step must be performed. That additional step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step above, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The loss establishes a new basis in the goodwill and subsequent reversal of goodwill impairment losses are not permitted.

The Company's core deposit intangibles are amortized on an accelerated basis using an estimated life of 10 years and in accordance with U.S. GAAP are evaluated annually for impairment. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

We believe that the fair values of our intangible assets were in excess of their carrying amounts and therefore there was no impairment to intangible assets at September 30, 2018.

Amortization expense of the core deposit intangibles was \$19,000 and \$39,000 for the three and nine months ended September 30, 2018, respectively. The unamortized balance of the core deposit intangibles and the amount of goodwill at September 30, 2018 were \$391,000 and \$5.2 million, respectively.

Note 10 – Fair Values of Financial Instruments

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

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

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

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

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The only assets or liabilities that the Company measured at fair value on a recurring basis were as follows. (In thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
As of September 30, 2018:				
Securities				
Residential mortgage backed securities	\$ 116,167	\$ -	\$ 116,167	\$ -
Municipal obligations	3,644	-	3,644	-
Preferred stock	8,052	8,052	-	-
Total Securities	127,863	8,052	119,811	-

As of December 31, 2017:
Securities

Edgar Filing: BCB BANCORP INC - Form 10-Q

Residential mortgage backed securities	\$ 111,793	\$ -	\$ 111,793	\$ -
Municipal obligations	2,502	-	2,502	-
Preferred stock	8,294	8,294	-	-
Total Securities	122,589	8,294	114,295	-

The Company's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 of the fair value hierarchy during the nine months ended September 30, 2018 and 2017.

The only assets or liabilities that the Company measured at fair value on a nonrecurring basis were as follows. (In thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
As of September 30, 2018				
Impaired Loans	\$ 8,854	\$ -	\$ -	\$ 8,854
Other real estate owned	\$ 1,232	\$ -	\$ -	\$ 1,232
As of December 31, 2017:				
Impaired Loans	\$ 10,369	\$ -	\$ -	\$ 10,369
Other real estate owned	\$ 532	\$ -	\$ -	\$ 532

Note 10 – Fair Values of Financial Instruments (Continued)

The following tables present additional quantitative information as of September 30, 2018 and December 31, 2017 about assets measured at fair value on a nonrecurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value. (Dollars in thousands):

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
September 30, 2018:				
Impaired Loans	\$ 8,854	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%
Other real estate owned	\$ 1,232	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
December 31, 2017:				
Impaired Loans	\$ 10,369	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%
Other real estate owned	\$ 532	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-10%

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of September 30, 2018 and December 31, 2017.

Cash and Cash Equivalents and Interest-Earning Time Deposits (Carried at Cost)

The carrying amounts reported in the consolidated statements of financial condition for cash and short-term instruments approximate fair values.

Securities Available for Sale

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

Equity Securities

The fair values of available-for-sale securities are based on quoted market prices (Level 1).

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

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for specific attributes of that loan. Loans held for sale are carried at their cost as of September 30, 2018 and December 31, 2017.

Loans Receivable (Carried at Cost)

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

Note 10 – Fair Values of Financial Instruments (Continued)

Impaired Loans

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loans observable market price or the fair value of the collateral if the loan is collateral dependent. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at September 30, 2018 and December 31, 2017 consisted of the loan balances of \$10.983 million and \$12.402 million, net of a valuation allowance of \$2.129 million and \$2.033 million, respectively.

Real Estate Owned (Generally Carried at Lower of Cost or Fair Value)

Real Estate Owned is generally carried at fair value which is determined based upon independent third-party appraisals of the properties, or based upon the expected proceeds from a pending sale. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FHLB of New York Stock (Carried at Cost)

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

Interest Receivable and Payable (Carried at Cost)

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

Deposits (Carried at Cost)

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

Borrowings and Subordinated Debt (Carried at Cost)

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

Off-Balance Sheet Financial Instruments

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

Note 10 – Fair Values of Financial Instruments (Continued)

The carrying values and estimated fair values of financial instruments were as follows as of September 30, 2018 and December 31, 2017:

As of September 30, 2018

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 206,710	\$ 206,710	\$ 206,710	\$ -	\$ -
Interest-earning time deposits	980	980	980	-	-
Debt securities available for sale	119,811	119,811	-	119,811	-
Equity investments	8,052	8,052	8,052	-	-
Loans held for sale	1,772	1,772	-	1,772	-
Loans receivable, net	2,225,001	2,173,100	-	-	2,173,100
FHLB of New York stock, at cost	14,755	14,755	-	14,755	-
Accrued interest receivable	8,635	8,635	-	8,635	-
Other Real Estate Owned	1,232	1,232	-	1,232	-
Financial liabilities:					
Deposits	2,116,624	2,125,913	1,044,485	1,081,428	-
Borrowings	275,800	271,770	-	271,770	-
Subordinated debentures	36,519	35,985	-	35,985	-
Accrued interest payable	1,923	1,923	-	1,923	-

As of December 31, 2017

	Quoted Prices in Active	Significant	Significant
--	-------------------------------	-------------	-------------

Edgar Filing: BCB BANCORP INC - Form 10-Q

	Carrying		Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Value	Fair Value			
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 124,235	\$ 124,235	\$ 124,235	\$ -	\$ -
Interest-earning time deposits	980	980	980	-	-
Debt securities available for sale	114,295	114,295	-	114,295	-
Equity investments	8,294	8,294	8,294	-	-
Loans held for sale	1,295	1,295	-	1,295	-
Loans receivable, net	1,643,677	1,643,626	-	-	1,643,626
FHLB of New York stock, at cost	10,211	10,211	-	10,211	-
Accrued interest receivable	6,153	6,153	-	6,153	-
Other Real Estate Owned	532	532	-	532	-
Financial liabilities:					
Deposits	1,569,370	1,578,382	903,155	673,227	-
Borrowings	185,000	182,947	-	182,947	-
Subordinated debentures	4,124	4,078	-	4,078	-
Accrued interest payable	791	791	-	791	-

Note 11 – Subordinated debt

On July 30, 2018, the Company issued \$33.5 million of fixed-to-floating rate subordinated debentures (the “Notes”) in a private placement. The Notes have a ten-year term and bear interest at a fixed annual rate of 5.625% for the first five years of the term (the "Fixed Interest Rate Period"). From and including August 1, 2023, the interest rate will adjust to a floating rate based on the three-month LIBOR plus 2.72%. until redemption or maturity (the "Floating Interest Rate Period"). The Notes are scheduled to mature on August 1, 2028. Subject to limited exceptions, the Company cannot redeem the Notes for the first five years of the term. The Company will pay interest in arrears semi-annually during the Fixed Interest Rate Period and quarterly during the Floating Interest Rate Period during the term of the Notes. The Notes constitute an unsecured and subordinated obligation of the Company and rank junior in right of payment to any senior indebtedness and obligations to general and secured creditors. The Notes qualify as Tier 2 capital for the Company for regulatory purposes and the portion that the Company contributes to the Bank will qualify as Tier 1 capital for the Bank. The additional capital will be used for general corporate purposes including organic growth initiatives. Subordinated debt includes associated deferred costs of \$1.1 million at September 30, 2018.

The Company also has \$4,124,000 of mandatory redeemable Trust Preferred securities. These interest rate on these floating rate junior subordinated debentures adjusts quarterly.

ITEM 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report on Form 10-Q contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, or the PSLRA. Such forward-looking statements, in addition to historical information, involve risk and uncertainties, and are based on the beliefs, assumptions and expectations of our management team. Words such as "expects," "believes," "should," "plans," "anticipates," "will," "potential," "could," "intend," "may," "outlook," "predict," "pro," "estimated," "assumes," "likely," and variation of such similar expressions are intended to identify such forward-looking statements. Forward-looking statements speak only as of the date they are made. Because forward-looking statements are subject to assumptions and uncertainties, actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements and future results could differ materially from historical performance.

Factors that could cause future results to vary from current management expectations as reflected in our forward looking statements include, but are not limited to:

- unfavorable economic conditions in the United States generally and particularly in our primary market area;
- the effects of declines in housing markets and real estate values that may adversely impact the collateral underlying our loans;
- increase in unemployment levels and slowdowns in economic growth;
- our level of non-performing assets and the costs associated with resolving any problem loans including litigation and other costs;
- the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of our loan and investment securities portfolios;
- the credit risk associated with our loan portfolio;
- changes in the quality and composition of the Bank's loan and investment portfolios;
- changes in our ability to access cost-effective funding;
- deposit flows;
- legislative and regulatory changes, including increases in Federal Deposit Insurance Corporation, or FDIC, insurance rates;
- monetary and fiscal policies of the federal government;
- changes in tax policies, rates and regulations of federal, state and local tax authorities;
- inflation;
- demands for our loan products;
- demand for financial services;
- competition;
- changes in the securities or secondary mortgage markets;
- changes in management's business strategies;

- our ability to enter new markets successfully;
- our ability to successfully integrate acquired businesses;
- changes in consumer spending;
- our ability to retain key employees;
- the effects of any reputational, credit, interest rate, market, operational, legal, liquidity, regulatory risk;
- expanded regulatory requirements as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which could adversely affect operating results; and
- other factors discussed elsewhere in this report, and in other reports we filed with the SEC, including under “Risk Factors” in Part I, Item 1A of our annual Report on Form 10-K and our other periodic reports that we file with the SEC.

You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this Form 10-Q. We do not assume any obligation to revise forward-looking statements except as may be required by law.

Overview

BCB Bancorp, Inc. is a New Jersey corporation, and is the holding company parent of BCB Community Bank, or the Bank. The Company has not engaged in any significant business activity other than owning all of the outstanding common stock of BCB Community Bank. Our executive office is located at 104-110 Avenue C, Bayonne, New Jersey 07002. At September 30, 2018 we had approximately \$2.638 billion in consolidated assets, \$2.117 billion in deposits and \$195.8 million in consolidated stockholders' equity.

BCB Community Bank opened for business on November 1, 2000 as Bayonne Community Bank, a New Jersey chartered commercial bank. The Bank changed its name from Bayonne Community Bank to BCB Community Bank in April 2007. At September 30, 2018 the Bank operated through twenty-eight branches in Bayonne, Carteret, Colonia, Edison, Jersey City, Hoboken, Fairfield, Holmdel, Lodi, Lyndhurst, Maplewood, Monroe Township, Parsippany, Plainsboro, Rutherford, South Orange, Union, and Woodbridge, New Jersey, as well as three branches in Hicksville and Staten Island, NY, and through executive offices located at 104-110 Avenue C and an administrative office located at 591-595 Avenue C, Bayonne, New Jersey 07002. The Bank's deposit accounts are insured by the FDIC, and the Bank is a member of the Federal Home Loan Bank System.

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

- loans, including commercial and multi-family real estate loans, one- to four-family mortgage loans, home equity loans, construction loans, consumer loans and commercial business loans. In recent years the primary growth in our loan portfolio has been in loans secured by commercial real estate and multi-family properties;

Edgar Filing: BCB BANCORP INC - Form 10-Q

- FDIC-insured deposit products, including savings and club accounts, interest and non-interest bearing demand accounts, money market accounts, certificates of deposit and individual retirement accounts; and
- retail and commercial banking services including wire transfers, money orders, safe deposit boxes, a night depository, debit cards, online banking, mobile banking, gift cards, fraud detection (positive pay), and automated teller services.

For a description of the recently completed merger by the Company, see Note 2 to the Company's unaudited financial statements.

Critical Accounting Policies

The preparation of the Consolidated Financial Statements in accordance with U.S. GAAP requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses. We regularly evaluate these estimates and assumptions including those used to determine the allowance for loan losses, deferred taxes, fair value measurements, goodwill and other intangible assets. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Although our current estimates contemplate current economic conditions and how we expect them to change in the future, for the remainder of 2018, it is reasonably possible that actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Actual results may differ from these estimates under different assumptions or conditions.

See further discussion of these critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2017 and Note 1, Basis of Presentation, to the unaudited Consolidated Financial Statements. There has been no change in critical accounting policies since the Company's last annual report on Form 10-K.

Financial Condition

Total assets increased by \$695.0 million, or 35.8 percent, to \$2.638 billion at September 30, 2018 from \$1.943 billion at December 31, 2017. The increase in total assets included the acquisition of IAB, which added approximately \$215.8 million in assets.

Loans receivable increased by \$581.3 million, or 35.4 percent, to \$2.225 billion at September 30, 2018 from \$1.644 billion at December 31, 2017. The increase in loans resulted from the acquisition of IAB, which approximated \$182.5 million in the balance of loans added, and an increase in loans receivable of \$398.8 million, excluding those acquired in the merger. The organic growth in loans over the first nine months of 2018 represented increases of \$440.4 million in commercial real estate and multi-family loans, \$71.5 million in commercial business loans, \$26.0 million in home equity loans, \$25.1 million in construction loans, and \$22.4 million in residential one-to-four family loans. The allowance for loan losses was \$21.5 million, or 193.9 percent of non-accruing loans and 0.96 percent of gross loans, at September 30, 2018 as compared to an allowance for loan losses of \$17.4 million, or 133.3 percent of non-accruing loans and 1.05 percent of gross loans, at December 31, 2017.

Total cash and cash equivalents increased by \$82.5 million, or 66.4 percent, to \$206.7 million at September 30, 2018 from \$124.2 million at December 31, 2017 primarily due to the Company's strategy to further strengthen liquidity and our deposit base.

Total investment securities increased by \$5.3 million, or 4.3 percent, to \$127.9 million at September 30, 2018 from \$122.6 million at December 31, 2017, as the Company deployed excess cash to improve returns on interest-earning assets and liquidity.

Deposit liabilities increased by \$547.3 million, or 34.9 percent, to \$2.117 billion at September 30, 2018 from \$1.569 billion at December 31, 2017. The increases in deposit liabilities related to the acquisition of IAB, which approximated \$178.4 million in the balance of deposits added, as well as the continued maturation of the seven branches opened in 2016 as a result of our organic growth initiative. Increases over the first nine months of 2018 included \$370.0 million in certificates of deposit, including listing service and brokered deposits, \$76.0 million in non-interest bearing deposit accounts, \$49.7 million in money market checking accounts, \$48.1 million in NOW deposit accounts, and \$3.4 million in savings and club accounts. Listing service and brokered certificates of deposit used as additional sources of deposit liquidity to fund loan growth, which totaled \$40.9 million and \$204.0 million, respectively, at September 30, 2018.

Debt obligations increased by \$123.2 million, or 65.1 percent, to \$312.3 million at September 30, 2018 from \$189.1 million at December 31, 2017, the net result of the issuance of new FHLB advances and scheduled maturities of FHLB advances, and the issuance of \$33.5 million of subordinated debentures in a private placement in July 2018. The increase in FHLB borrowings reflected the use of long-term advances to augment deposits as the Company's funding source for originating loans and investing in investment securities. The weighted average interest rate of FHLB advances was 2.21 percent at September 30, 2018. The issuance of subordinated debt was to maintain adequate capital ratios for further growth.

Stockholders' equity increased by \$19.3 million, or 10.9 percent, to \$195.8 million at September 30, 2018 from \$176.5 million at December 31, 2017. The increase in stockholders' equity was primarily attributable to an increase in additional paid-in capital of \$17.4 million from common stock and preferred stock issued as part of the acquisition of IAB. Retained earnings increased by \$4.5 million to \$35.7 million at September 30, 2018 from \$31.2 million at December 31, 2017. Accumulated other comprehensive loss increased \$3.4 million to \$6.5 million at September 30, 2018 from \$3.1 million at December 31, 2017.

Net Interest Income Analysis

Net interest income represents the difference between income earned on our interest-earning assets and the expense incurred on our interest-bearing liabilities, and is analyzed and monitored by the Company on a regular basis. The following tables set forth average balance sheets, yields, and costs. The yields include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or expense.

	Three Months Ended September 30, 2018			2017		
	Average Balance (Dollars in thousands)	Interest Earned/Paid	Average Yield/Rate (3)	Average Balance	Interest Earned/Paid	Average Yield/Rate (3)
Interest-earning assets:						
Loans Receivable	\$ 2,183,872	\$ 26,019	4.77%	\$ 1,610,388	\$ 18,399	4.57%
Investment Securities	148,540	943	2.54%	95,834	694	2.90%
Interest-earning deposits	164,944	1,009	2.45%	72,668	313	1.72%
Total Interest-earning assets	2,497,356	27,971	4.48%	1,778,890	19,406	4.36%
Non-interest-earning assets						
	63,729			49,868		
Total assets	\$ 2,561,085			\$ 1,828,758		
Interest-bearing liabilities:						
Interest-bearing demand accounts						
	\$ 336,373	\$ 504	0.60%	\$ 303,737	\$ 402	0.53%
Money market accounts	195,436	626	1.28%	138,088	298	0.86%
Savings accounts	265,610	116	0.17%	264,841	100	0.15%
Certificates of Deposit	969,475	4,591	1.89%	625,951	2,284	1.46%
Total interest-bearing deposits	1,766,894	5,837	1.32%	1,332,617	3,084	0.93%
Borrowed funds	324,767	2,054	2.53%	151,706	748	1.97%
Total interest-bearing liabilities	2,091,661	7,891	1.51%	1,484,323	3,832	1.03%
Non-interest-bearing liabilities						
	274,850			204,156		
Total liabilities	2,366,511			1,688,479		
Stockholders' equity	194,574			140,279		
Total liabilities and stockholders' equity	\$ 2,561,085			\$ 1,828,758		
Net interest income		\$ 20,080			\$ 15,574	
Net interest rate spread(1)			2.97%			3.33%
Net interest margin(2)			3.22%			3.50%

- (1) Net interest rate spread represents the difference between the average yield on average interest-earning assets and the average cost of average interest-bearing liabilities.
- (2) Net interest margin represents net interest income divided by average total interest-earning assets.
- (3) Annualized.

Net Interest Income Analysis (Continued)

	Nine Months Ended September 30, 2018			2017		
	Average Balance (Dollars in thousands)	Interest Earned/Paid	Average Yield/Rate (3)	Average Balance	Interest Earned/Paid	Average Yield/Rate (3)
Interest-earning assets:						
Loans Receivable	\$ 1,983,562	\$ 69,588	4.68%	\$ 1,570,033	\$ 53,967	4.58%
Investment Securities	142,712	2,779	2.60%	92,791	2,089	3.00%
Interest-earning deposits	127,977	2,242	2.34%	79,171	874	1.47%
Total Interest-earning assets	2,254,251	74,609	4.41%	1,741,995	56,930	4.36%
Non-interest-earning assets						
Total assets	\$ 2,307,626			\$ 1,797,600		
Interest-bearing liabilities:						
Interest-bearing demand accounts						
Money market accounts	\$ 328,908	\$ 1,402	0.57%	\$ 302,615	\$ 1,235	0.54%
Savings accounts	179,290	1,500	1.12%	132,342	815	0.82%
Certificates of Deposit	263,156	318	0.16%	264,963	299	0.15%
Total interest-bearing deposits	859,949	10,726	1.66%	608,608	6,437	1.41%
Borrowed funds	1,631,303	13,946	1.14%	1,308,528	8,786	0.90%
Total interest-bearing liabilities	245,567	4,153	2.26%	159,676	2,902	2.42%
Non-interest-bearing liabilities	1,876,870	18,099	1.29%	1,468,204	11,688	1.06%
Total liabilities	243,973			196,403		
Stockholders' equity	2,120,843			1,664,607		
Total liabilities and stockholders' equity	186,783			132,993		
Net interest income	\$ 2,307,626	\$ 56,510		\$ 1,797,600	\$ 45,242	
Net interest rate spread(1)			3.13%			3.30%
Net interest margin(2)			3.34%			3.46%

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

(2) Net interest margin represents net interest income divided by average total interest-earning assets.

(3) Annualized.

42

Results of Operations comparison for the Three Months Ended September 30, 2018 and 2017

Net income increased \$1.4 million, or 42.8 percent, to \$4.6 million for the three months ended September 30, 2018, compared with \$3.2 million for the three months ended September 30, 2017. The increase in net income was primarily related to an increase in total interest income, an increase in total non-interest income, as well as a lower income tax provision, partly offset by increases in interest expense, non-interest expense and the provision for loan losses for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017.

Net interest income increased by \$4.5 million, or 28.9 percent, to \$20.1 million for the three months ended September 30, 2018 from \$15.6 million for the three months ended September 30, 2017. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of \$718.5 million, or 40.4 percent, to \$2.497 billion for the three months ended September 30, 2018 from \$1.779 billion for the three months ended September 30, 2017. There was an increase in the average yield on interest-earning assets of 12 basis points to 4.48 percent for the three months ended September 30, 2018 from 4.36 percent for the three months ended September 30, 2017. There was also an increase in the average balance of interest-bearing liabilities of \$607.3 million, or 40.9 percent, to \$2.092 billion for the three months ended September 30, 2018 from \$1.484 billion for the three months ended September 30, 2017, as well as an increase in the average rate on interest-bearing liabilities of 48 basis points to 1.51 percent for the three months ended September 30, 2018 from 1.03 percent for the three months ended September 30, 2017.

Interest income on loans receivable increased by \$7.6 million, or 41.4 percent, to \$26.0 million for the three months ended September 30, 2018 from \$18.4 million for the three months ended September 30, 2017. The increase was primarily attributable to an increase in the average balance of loans receivable of \$573.5 million, or 35.6 percent, to \$2.184 billion for the three months ended September 30, 2018 from \$1.610 billion for the three months ended September 30, 2017, as well as an increase in the average yield on loans of 20 basis points to 4.77 percent for the three months ended September 30, 2018 from 4.57 percent for the three months ended September 30, 2017. The increase in the average balance of loans receivable was in accordance with the Company's growth strategy, which included growing the Bank's geographic footprint vis-à-vis our organic branching strategy and the acquisition of IAB, while the increase in the average yield on loans related to the rising interest rate environment. Interest income on loans also included \$579,000 of amortization of purchase credit fair value adjustments related to the acquisition of IAB for the three months ended September 30, 2018, which added approximately nine basis points to the average yield on interest earning assets on an annualized basis.

Interest income on securities increased by \$249,000, or 35.9 percent, to \$943,000 for the three months ended September 30, 2018 from \$694,000 for the three months ended September 30, 2017. This increase was primarily due to an increase in the average balance of securities of \$52.7 million, or 55.0 percent, to \$148.5 million for the three months ended September 30, 2018 from \$95.8 million for the three months ended September 30, 2017, partly offset by a decrease in the average yield on securities of 36 basis points to 2.54 percent for the three months ended September 30, 2018 from 2.90 percent for the three months ended September 30, 2017. The increase in the average balance of securities related to the Company's strategy to further strengthen its liquidity position, while the decrease in the yield on securities related to the mix of investments in the portfolio.

Interest income on other interest-earning assets increased by \$696,000, or 222.4 percent, to \$1.0 million for the three months ended September 30, 2018 from \$313,000 for the three months ended September 30, 2017. This increase was primarily due to an increase in the average balance of other interest earning assets of \$92.3 million, or 127.0 percent, to \$164.9 million for the three months ended September 30, 2018 from \$72.7 million for the three months ended September 30, 2017 as well as an increase in the average yield on other interest-earning assets of 73 basis points to 2.45 percent for the three months ended September 30, 2018 from 1.72 percent for the three months ended September 30, 2017. The increase in the average balance of other interest-earning assets is consistent with the Company's strategy of maintaining strong levels of liquidity. The increase in the average yield on other interest-earning assets correlates to the increases in the fed funds rate that have occurred over the last 12 months.

Total interest expense increased by \$4.1 million, or 105.9 percent, to \$7.9 million for the three months ended September 30, 2018 from \$3.8 million for the three months ended September 30, 2017. This increase resulted, primarily, from an increase in the average balance of interest-bearing liabilities of \$607.3 million, or 40.9 percent, to \$2.092 billion for the three months ended September 30, 2018 from \$1.484 billion for the three months ended September 30, 2017, as well as an increase in the average rate on interest-bearing liabilities of 48 basis points to 1.51 percent for the three months ended September 30, 2018 from 1.03 percent for the three months ended September 30, 2017. Interest expense, net related to the issuance of subordinated debt in July 2018, totaled \$383,000 for the three months ended September 30, 2018, which added approximately six basis points to the average cost of funds on an annualized basis.

Net interest margin was 3.22 percent for the three-month period ended September 30, 2018 and 3.50 percent for the three-month period ended September 30, 2017. The decrease in the net interest margin was the result of the rising interest rate environment, with the increase in the cost of funds outpacing the return on interest earning assets for the short term.

The provision for loan losses increased by \$396,000, to \$907,000 for the three months ended September 30, 2018 from \$511,000 for the three months ended September 30, 2017. The provision for loan losses is established based upon management's review of the Company's loans and consideration of a variety of factors, including but not limited to: (1) the risk characteristics of the loan portfolio; (2) current economic conditions; (3) actual losses previously experienced; (4) the dynamic activity and fluctuating balance of loans receivable; and (5) the existing level of reserves for loan losses that are probable and estimable. During the three months ended September 30, 2018, the Company experienced \$43,000 in net charge-offs compared to \$26,000 in net charge-offs for the three months ended September 30, 2017. The Bank had non-accrual loans totaling \$11.1 million, or 0.49 percent, of gross loans at September 30, 2018 as compared to \$13.0 million, or 0.72 percent, of gross loans at December 31, 2017. The allowance for loan losses was \$21.5 million, or 0.96 percent, of gross loans at September 30, 2018, \$17.4 million, or 1.04 percent, of gross loans at December 31, 2017 and \$18.4 million, or 1.13 percent, of gross loans at September 30, 2017. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at September 30, 2018 and December 31, 2017.

Total non-interest income increased by \$219,000, or 13.4 percent, to \$1.8 million for the three months ended September 30, 2018 from \$1.6 million for the three months ended September 30, 2017. The increase in total non-interest income mainly related to an increase in the amount of fees and service charges of \$343,000, to \$1.1 million for the three months ended September 30, 2018 from \$749,000 for the three months ended September 30, 2017, an increase in gains on sales of loans of \$198,000 to \$738,000 for the three months ended September 30, 2018 from \$540,000 for the three months ended September 30, 2017, partly offset by a decrease in gains on sale of OREO properties of \$208,000 to \$14,000 for the three months ended September 30, 2018 from \$222,000 for the three months ended September 30, 2017. The increases in non-interest income over the prior year are largely attributable to the inclusion of IAB since the merger in April 2018.

Total non-interest expense increased by \$3.1 million, or 27.4 percent, to \$14.4 million for the three months ended September 30, 2018 from \$11.3 million for the three months ended September 30, 2017. Salaries and employee benefits expense increased by \$1.2 million, or 20.8 percent, to \$7.1 million for the three months ended September 30, 2018 from \$5.9 million for the three months ended September 30, 2017. Other non-interest expense increased by \$985,000, or 65.7 percent, to \$2.5 million for the three months ended September 30, 2018 from \$1.5 million for the three months ended September 30, 2017. Other non-interest expense consisted of loan expense, business development, office supplies, correspondent bank fees, telephone and communication and other fees and expenses. Occupancy expense increased by \$452,000, or 22.2 percent, to \$2.5 million for the three months ended September 30, 2018 from \$2.0 million for the three months ended September 30, 2017. Data processing expense increased by \$239,000, or 34.0 percent, to \$942,000 for the three months ended September 30, 2018 from \$703,000 for the three months ended September 30, 2017. Regulatory assessment expense increased by \$101,000, or 31.8 percent, to \$419,000 for the three months ended September 30, 2018 from \$318,000 for the three months

ended September 30, 2017. The increases in non-interest expense over the prior year were largely attributable to the inclusion of IAB expenses since the merger in April 2018.

The income tax provision decreased by \$140,000, or 6.4 percent, to \$2.0 million for the three months ended September 30, 2018 from \$2.2 million for the three months ended September 30, 2017. The decrease in the income tax provision comes as a result of the lower tax provision as mandated by enactment of the Tax Cuts and Jobs Act of 2017, which lowered the federal corporate tax rate from 34% to 21% beginning in 2018, offset by higher taxable income for the three months ended September 30, 2018 as compared to that same period for 2017. The consolidated effective tax rate for the three months ended September 30, 2018 was 30.8 percent compared to 40.4 percent for the three months ended September 30, 2017.

Results of Operations comparison for the Nine Months Ended September 30, 2018 and 2017

Net income increased by \$2.9 million, or 33.5 percent, to \$11.5 million for the nine months ended September 30, 2018 from \$8.6 million for the nine months ended September 30, 2017. The increase in net income was primarily related to an increase in total interest income, an increase in total non-interest income as well as a decrease in the income tax provision, partly offset by higher interest expense, a higher provision for loan losses, and higher non-interest expense for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017.

Net interest income increased by \$11.3 million, or 24.9 percent, to \$56.5 million for the nine months ended September 30, 2018 from \$45.2 million for the nine months ended September 30, 2017. The increase in net interest income resulted primarily from an increase in the average balance of interest-earning assets of \$512.2 million, or 29.4 percent, to \$2.254 billion for the nine months ended September 30, 2018 from \$1.742 billion for the nine months ended September 30, 2017. There was an increase in the average yield on interest-earning assets of five basis points to 4.41 percent for the nine months ended September 30, 2018 from 4.36 percent for the nine months ended September 30, 2017. There was also an increase in the average balance of interest-bearing liabilities of \$408.7 million, or 27.8 percent, to \$1.877 billion for the nine months ended September 30, 2018 from \$1.468 billion for the nine months ended September 30, 2017, as well as an increase in the average rate on interest-bearing liabilities of 23 basis points to 1.29 percent for the nine months ended September 30, 2018 from 1.06 percent for the nine months ended September 30, 2017.

Interest income on loans receivable increased by \$15.6 million, or 29.0 percent, to \$69.6 million for the nine months ended September 30, 2018 from \$54.0 million as compared to the nine months ended September 30, 2017. The increase was primarily attributable to an increase in the average balance of loans receivable of \$413.5 million, or 26.3 percent, to \$1.984 billion for the nine months ended September 30, 2018 from \$1.570 billion for the nine months ended September 30, 2017, as well as an increase in the average yield on loans of 10 basis points to 4.68 percent for the nine months ended September 30, 2018 from 4.58 percent for the nine months ended September 30, 2017. The increase in the average balance of loans receivable was in accordance with the Company's growth strategy, which included growing the Bank's geographic footprint vis-à-vis our organic branching strategy and the acquisition of IAB, while the increase in the average yield on loans related to the rising interest rate environment. Interest income on loans also included \$1.2 million of amortization of purchase credit fair value adjustments related to the acquisition of IAB

for the nine months ended September 30, 2018, which added approximately 10 basis points to the average yield on interest earning assets on an annualized basis.

Interest income on securities increased by \$690,000, or 33.0 percent, to \$2.8 million for the nine months ended September 30, 2018 from \$2.1 million for the nine months ended September 30, 2017. This increase was primarily due to an increase in the average balance of securities of \$49.9 million, or 53.8 percent, to \$142.7 million for the nine months ended September 30, 2018 from \$92.8 million for the nine months ended September 30, 2017, offset by a decrease in the average yield on securities of 40 basis points to 2.60 percent for the nine months ended September 30, 2018 from 3.00 percent for the nine months ended September 30, 2017. The increase in the average balance of securities related to the Company's strategy to further strengthen its liquidity position, while the decrease in the average yield on securities related to the mix of investments in the portfolio.

Interest income on other interest-earning assets increased by \$1.4 million, or 156.5 percent to \$2.2 million for the nine months ended September 30, 2018 from \$874,000 for the nine months ended September 30, 2017. This increase was primarily due to increase in the average balance of other interest earning assets of \$48.8 million, or 61.6 percent, to \$128.0 million for the nine months ended September 30, 2018 from \$79.2 million for the nine months ended September 30, 2017 as well as an increase in the average yield on other interest-earning assets of 87 basis points to 2.34 percent for the nine months ended September 30, 2018 from 1.47 percent for the nine months ended September 30, 2017. The increase in the average balance of other interest-earning assets is consistent with the Company's strategy of maintaining strong levels of liquidity. The increase in the average yield on other interest-earning assets correlated to the increases in the fed funds rate that have occurred over the last 12 months.

Total interest expense increased by \$6.4 million, or 54.9 percent, to \$18.1 million for the nine months ended September 30, 2018 from \$11.7 million for the nine months ended September 30, 2017. This increase resulted primarily from an increase in the average balance of interest-bearing liabilities of \$408.7 million, or 27.8 percent, to \$1.877 billion for the nine months ended September 30, 2018 from \$1.468 billion for the nine months ended September 30, 2017, as well as an increase in the average rate on interest-bearing liabilities of 23 basis points to 1.29 percent for the nine months ended September 30, 2018 from 1.06 percent for the nine months ended September 30, 2017. Interest expense, related to the issuance of subordinated debt in July 2018, totaled \$383,000 for the nine months ended September 30, 2018, which added approximately twelve basis points to the average cost of funds on an annualized basis.

Net interest margin was 3.34 percent for the nine-month period ended September 30, 2018 and 3.46 percent for the nine-month period ended September 30, 2017. The decrease in the net interest margin was the result of the rising interest rate environment, with the increase in the cost of funds outpacing the return on interest earning assets for the short term.

The provision for loan losses increased by \$2.5 million, to \$4.3 million for the nine months ended September 30, 2018 from \$1.8 million for the nine months ended September 30, 2017. The provision for loan losses is established based upon management's review of the Company's loans and consideration of a variety of factors, including but not limited to: (1) the risk characteristics of the loan portfolio; (2) current economic conditions; (3) actual losses previously

experienced; (4) the dynamic activity and fluctuating balance of loans receivable; and (5) the existing level of reserves for loan losses that are probable and estimable. During the nine months ended September 30, 2018, the Company experienced \$180,000 in net charge-offs compared to \$546,000 in net charge-offs for the nine months ended September 30, 2017. The Bank had non-accrual loans totaling \$11.1 million, or 0.49 percent, of gross loans at September 30, 2018 as compared to \$13.0 million, or 0.78 percent, of gross loans at December 31, 2017. The allowance for loan losses was \$21.5 million, or 0.96 percent, of gross loans at September 30, 2018, \$17.4 million, or 1.04 percent, of gross loans at December 31, 2017 and \$18.4 million, or 1.12 percent, of gross loans at September 30, 2017. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in the aforementioned criteria. In addition various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to recognize additional provisions based on their judgment of information available to them at the time of their examination. Management believes that the allowance for loan losses was adequate at September 30, 2018 and December 31, 2017.

Total non-interest income increased by \$833,000, or 14.0 percent, to \$6.8 million for the nine months ended September 30, 2018 from \$6.0 million for the nine months ended September 30, 2017. The increase in total non-interest income was mainly related to an increase in other non-interest income of \$2.1 million to \$2.4 million for the nine months ended September 30, 2018 from \$307,000 for the nine months ended September 30, 2017. The increase in other non-interest income was mainly attributed to \$2.0 million received from a legal settlement in the first quarter of 2018. The increase in total non-interest income was partly offset by a decrease in the gains on sale of OREO properties of \$1.6 million, which represented gains for the nine months ended September 30, 2017.

Total non-interest expense increased by \$7.4 million, or 21.1 percent, to \$42.4 million for the nine months ended September 30, 2018 from \$35.0 million for the nine months ended September 30, 2017. Merger-related costs were \$2.3 million for the nine months ended September 30, 2018, with no comparable figure for the nine months ended September 30, 2017. Salaries and employee benefits expense increased by \$2.7 million, or 14.8 percent, to \$20.6 million for the nine months ended September 30, 2018 from \$17.9 million for the nine months ended September 30, 2017. Other non-interest expense increased by \$1.8 million, or 39.4 percent, to \$6.4 million for the nine months ended September 30, 2018 from \$4.6 million for the nine months ended September 30, 2017. Other non-interest expense consisted of loan expense, business development, office supplies, correspondent bank fees, telephone and communication and other fees and expenses. Occupancy expense increased by \$843,000, or 13.6 percent, to \$7.0 million for the nine months ended September 30, 2018 from \$6.2 million for the nine months ended September 30, 2017. Data processing expense increased by \$465,000, or 22.9 percent, to \$2.5 million for the nine months ended September 30, 2018 from \$2.0 million for the nine months ended September 30, 2017. The increase in total non-interest expense was partly offset by decreases in professional fees of \$762,000, or 34.1 percent, to \$1.5 million for the nine months ended September 30, 2018 from \$2.2 million for the nine months ended September 30, 2017, primarily related to counsel fees and litigation expenses awarded to the plaintiff's class counsel of \$1.0 million in the matter of Kube v. Pamrapo Bancorp, Inc. et al in the prior year period. The increases in non-interest expense over the prior year were largely attributable to the inclusion of IAB expenses since the merger in April 2018.

The income tax provision decreased by \$692,000, or 12.0 percent, to \$5.1 million for the nine months ended September 30, 2018 from \$5.8 million for the nine months ended September 30, 2017. The decrease in the income tax provision comes as a result of the lower tax provision as mandated by enactment of the Tax Cuts and Jobs Act of 2017, which lowered the federal corporate tax rate from 34% to 21% beginning in 2018, partly offset by higher taxable income for the nine months ended September 30, 2018 as compared to that same period for 2017. The consolidated effective tax rate for the nine months ended September 30, 2018 was 30.6 percent compared to 40.1 percent for the nine months ended September 30, 2017.

Liquidity and Capital Resources

Liquidity

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

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

collateralized borrowings from the FHLB and other correspondent banks.

The Company had total borrowings of \$312.3 million at September 30, 2018 and \$189.1 million at December 31, 2017. The increase of \$123.2 million included a net increase in FHLB advances of \$90.0 million and the issuance of \$33.5 million of subordinated debentures in a private placement in July 2018. The average rate of FHLB advances was 2.21 percent at September 30, 2018, as compared with 1.78 percent at December 31, 2017, while the subordinated debentures have a ten-year term and will bear interest at a fixed annual rate of 5.625% for the first five years of the term. From and including August 1, 2023, the interest rate will adjust to a floating rate based on the LIBOR plus 2.72% until redemption or maturity.

The Company had the ability at September 30, 2018 to obtain additional funding from the FHLB of up to \$110.1 million, utilizing unencumbered loan collateral. The Company expects to have sufficient funds available to meet current loan commitments in the normal course of business through typical sources of liquidity. Time deposits scheduled to mature in one year or less totaled \$768.5 million at September 30, 2018. Based upon historical experience data, management estimates that a significant portion of such deposits will remain with the Company.

Capital Resources

At September 30, 2018, and December 31, 2017, BCB Community Bank exceeded all of its regulatory capital requirements to which it was subject. The following table sets forth the regulatory capital ratios for BCB Community Bank as well as regulatory capital requirements for the periods presented.

	Actual	For Capital Adequacy Purposes	For Well Capitalized Under Prompt Corrective Action
As of September 30, 2018:			
Bank			
Total capital (to risk-weighted assets)	\$ 253,202 12.19 %	\$ 166,123 8.00 %	\$ 207,654 10.00 %
Tier 1 capital (to risk-weighted assets)	231,698 11.16	124,592 6.00	166,123 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	231,698 11.16	93,444 4.50	134,975 6.50
Tier 1 capital (to average assets)	231,698 9.05	102,364 4.00	127,956 5.00

As of December 31, 2017:
Bank

Edgar Filing: BCB BANCORP INC - Form 10-Q

Common Equity Tier 1 Capital (to risk-weighted assets)	\$ 199,637	13.24 %	\$ 120,605	8.00 %	\$ 150,757	10.00 %
Tier 1 capital (to risk-weighted assets)	182,262	12.09	90,454	6.00	120,605	8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	182,262	12.09	67,841	4.50	97,992	6.50
Tier 1 capital (to average assets)	182,262	9.50	76,712	4.00	95,890	5.00

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the new rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigned a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain available-for-sale securities holdings and defined benefit plan obligations to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out was exercised. The Bank exercised the opt-out election. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule became effective for the Bank and the Company on January 1, 2015. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. For 2018, it is 1.875% of risk-weighted assets. The Bank and the Company currently comply with the minimum capital and capital conservation buffer requirements set forth in the final rule.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the Federal Reserve Board has amended its small bank holding company and savings and loan holding company policy statement to provide that holding companies with consolidated assets of less than \$3 billion that are (i) not engaged in significant nonbanking activities, (ii) do not conduct significant off-balance sheet activities, and (3) do not have a material amount of SEC-registered debt or equity securities, other than trust preferred securities, that contribute to an organization's complexity, are no longer subject to regulatory capital requirements, effective no later than August 30, 2018.

In addition, as a result of the legislation, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

At September 30, 2018 and December 31, 2017, the capital ratios of the Bank exceeded the quantitative capital ratios required for an institution to be considered "well-capitalized."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management of Market Risk

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

The following table presents the Company's net portfolio value ("NPV"). These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of September 30, 2018. Assumptions have been made by the Company relating to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Investment securities were scheduled at either the maturity date or the next scheduled call date based upon management's judgment of whether the particular security would be called in the current interest rate environment and under assumed interest rate scenarios. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the NPV table include prepayment rates on loans and mortgage-backed securities, core deposits without stated maturity dates were scheduled with an assumed term of 48 months, and money market and non-interest bearing accounts were scheduled with an assumed term of 24 months. The NPV at "PAR" represents the difference between the Company's estimated value of assets and estimated value of liabilities assuming no change in interest rates. The NPV for a decrease of 200 to 300 basis points has been excluded since it would not be meaningful, in the interest rate environment as of September 30, 2018. The following sets forth the Company's NPV as of that date.

Change in Calculation	Net Portfolio Value	\$ Change from PAR	% Change from PAR	NPV as a % of Assets			
				NPV Ratio	Change		
+300bp	\$ 126,931	\$ (88,097)	(40.97)	%	5.33	%	(300) bps
+200bp	154,371	(60,658)	(28.21)		6.32		(202) bps
+100bp	186,870	(28,159)	(13.10)		7.44		(90) bps
PAR	215,028	-	-		8.34		- bps
-100bp	234,847	19,819	9.22		8.89		55 bps

bp – basis points

The table above indicates that as of September 30, 2018, in the event of a 100 basis point increase in interest rates, we would experience a decrease to 7.44% in NPV.

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

ITEM 4.

Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. As of September 30, 2018, we were not involved in any material legal proceedings the outcome of which, if determined in a manner adverse to the Company, would have a material adverse effect on our financial condition or results of operations.

ITEM 1.A. RISK FACTORS

There have been no changes to the risk factors set forth under Item 1.A Risk Factors as set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- | | |
|--------------|--|
| Exhibit 11.0 | <u>Computation of Earnings Per Share.</u> |
| Exhibit 31.1 | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 31.2 | <u>Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 32 | <u>Officers' Certification filed pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</u> |

Exhibit 101.INS XBRL Instance Document
Exhibit 101.SCH XBRL Taxonomy Extension Schema
Exhibit 101.CAL XBRL Taxonomy Extension Calculation LinkBase
Exhibit 101.DEF XBRL Taxonomy Extension Definition LinkBase
Exhibit 101.LAB XBRL Taxonomy Extension Label LinkBase
Exhibit 101.PRE XBRL Taxonomy Extension Presentation LinkBase

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

BCB BANCORP, INC.

Date: November 8, 2018 By: /s/ Thomas Coughlin
Thomas Coughlin
President and Chief Executive Officer

(Principal Executive Officer)

Date: November 8, 2018 By: /s/ Thomas P. Keating
Thomas P. Keating

Senior Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)