

NORTHEAST COMMUNITY BANCORP INC  
Form 10-Q  
May 16, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 March 31, 2011

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: 0-51852

Northeast Community Bancorp, Inc.  
(Exact name of registrant as specified in its charter)

United States of America  
(State or other jurisdiction of  
incorporation or  
organization)

06-1786701  
(I.R.S. Employer Identification  
No.)

325 Hamilton Avenue, White  
Plains, New York  
(Address of principal executive  
offices)

10601  
(Zip Code)

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

N/A  
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

As of May 2, 2011, there were 13,004,102 shares of the registrant’s common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	March 31, 2011	December 31, 2010
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$ 2,861	\$ 2,494
Interest-bearing deposits	32,877	41,959
Cash and cash equivalents	35,738	44,453
Certificates of deposit	2,988	2,988
Securities available-for-sale	159	162
Securities held-to-maturity	19,789	19,858
Loans receivable, net of allowance for loan losses of \$7,908 and \$7,647, respectively	362,812	364,798
Premises and equipment, net	6,689	6,784
Federal Home Loan Bank of New York stock, at cost	1,884	1,884
Bank owned life insurance	16,291	16,145
Accrued interest receivable	1,727	1,704
Goodwill	1,310	1,310
Intangible assets	512	527
Real estate owned	933	933
Other assets	3,852	4,462
Total assets	\$ 454,684	\$ 466,008
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 9,435	\$ 9,839
Interest bearing	304,627	316,991
Total deposits	314,062	326,830
Advance payments by borrowers for taxes and insurance	4,244	3,384
Federal Home Loan Bank advances	25,000	25,000
Accounts payable and accrued expenses	2,571	2,487
Note payable	170	168
Total liabilities	346,047	357,869
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 13,071,402 shares in 2011 and 13,114,800 in 2010	132	132
Additional paid-in capital	57,366	57,391
Unearned Employee Stock Ownership Plan ("ESOP") shares	(3,823 )	(3,888 )
Retained earnings	56,007	55,335

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Treasury stock – at cost, 153,598 shares and 110,200 shares respectively	(925 )	(664 )
Accumulated comprehensive loss	(120 )	(167 )
Total stockholders' equity	108,637	108,139
Total liabilities and stockholders' equity	\$ 454,684	\$ 466,008

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share data)	
<b>Interest Income:</b>		
Loans	\$5,599	\$5,767
Interest-earning deposits	7	48
Securities – taxable	185	202
<b>Total Interest Income</b>	<b>5,791</b>	<b>6,017</b>
<b>Interest Expense:</b>		
Deposits	1,185	2,010
Borrowings	175	297
<b>Total Interest Expense</b>	<b>1,360</b>	<b>2,307</b>
<b>Net Interest Income</b>	<b>4,431</b>	<b>3,710</b>
Provision for Loan Losses	328	34
<b>Net Interest Income after Provision for Loan Losses</b>	<b>4,103</b>	<b>3,676</b>
<b>Non-Interest Income:</b>		
Other loan fees and service charges	62	58
Loss on disposition of equipment	-	(7)
Earnings on bank owned life insurance	146	153
Investment advisory fees	210	180
Other	3	4
<b>Total Non-Interest Income</b>	<b>421</b>	<b>388</b>
<b>Non-Interest Expenses:</b>		
Salaries and employee benefits	1,690	1,783
Occupancy expense	276	333
Equipment	135	137
Outside data processing	208	208
Advertising	21	22
Real estate owned expense (income)	9	(1)
FDIC insurance premiums	132	134
Other	709	679
<b>Total Non-Interest Expenses</b>	<b>3,180</b>	<b>3,295</b>

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Income before Provision for Income Taxes	1,344	769
Provision for Income Taxes	509	246
Net Income	\$835	\$523
Net Income per Common Share – Basic	\$0.07	\$0.04
Weighted Average Number of Common Shares Outstanding – Basic	12,721	12,814
Dividends Declared per Common Share	\$.03	\$.03

See Notes to Consolidated Financial Statements



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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31, 2011 and 2010

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity	Comprehensive Income
Balance at December 31, 2009	\$ 132	\$ 57,496	\$ (4,147)	\$ 54,121	\$ -	\$ (154 )	\$ 107,448	
Comprehensive income:								
Net income	-	-	-	523	-	-	523	\$ 523
Unrealized loss on securities available for sale, net of taxes of \$1	-	-	-	-	-	1	1	1
Pension liability – DRP, net of taxes of \$11	-	-	-	-	-	(4 )	(4 )	(4 )
Cash dividend declared (\$.03 per share)	-	-	-	(166 )	-	-	(166 )	
ESOP shares earned	-	(22 )	64	-	-	-	42	
Total Comprehensive Income								\$ 520
Balance - March 31, 2010	\$ 132	\$ 57,474	\$ (4,083)	\$ 54,478	\$ -	\$ (157 )	\$ 107,844	
Balance at December 31, 2010	\$ 132	\$ 57,391	\$ (3,888)	\$ 55,335	\$ (664 )	\$ (167 )	\$ 108,139	
Comprehensive income:								
Net income	-	-	-	835	-	-	835	\$ 835
Pension liability – DRP, net of taxes of \$16	-	-	-	-	-	47	47	47
Purchase of 43,398 shares of treasury stock	-	-	-	-	(261 )	-	(261 )	
Cash dividend declared (\$.03 per share)	-	-	-	(163 )	-	-	(163 )	
ESOP shares earned	-	(25 )	65	-	-	-	40	
Total Comprehensive Income								\$ 882
Balance - March 31, 2011	\$ 132	\$ 57,366	\$ (3,823)	\$ 56,007	\$ (925 )	\$ (120 )	\$ 108,637	

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2011	2010
	(In Thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$835	\$523
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts, net	21	5
Provision for loan losses	328	34
Depreciation	173	200
Net amortization of deferred loan fees and costs	35	28
Amortization of intangible assets	15	19
Deferred income taxes	51	217
Accretion of discount on note payable	2	4
Retirement plan expense	168	173
Loss on disposal of equipment	-	7
Earnings on bank owned life insurance	(146 )	(153 )
ESOP compensation expense	40	42
Increase in accrued interest receivable	(23 )	(47 )
Decrease in other assets	578	107
Decrease in accounts payable and accrued expenses	(56 )	(155 )
<b>Net Cash Provided by Operating Activities</b>	<b>2,021</b>	<b>1,004</b>
<b>Cash Flows from Investing Activities:</b>		
Net decrease (increase) in loans	1,623	(1,653 )
Purchase of securities held-to-maturity	(984 )	(22,568 )
Principal repayments on securities available-for-sale	3	3
Principal repayments on securities held-to-maturity	1,032	192
Proceeds from maturities of certificates of deposit	-	4,980
Purchases of premises and equipment	(78 )	(26 )
Purchase of bank owned life insurance	-	(5,000 )
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>1,596</b>	<b>(24,072 )</b>
<b>Cash Flows from Financing Activities:</b>		
Net decrease in deposits	(12,768 )	(11,914 )
Proceeds from FHLB of NY advances	10,000	-
Repayment of FHLB of NY advances	(10,000 )	-
Purchase of treasury stock	(261 )	-
Increase in advance payments by borrowers for taxes and insurance	860	1,402
Cash dividends paid to minority shareholders	(163 )	(166 )
<b>Net Cash Used in Financing Activities</b>	<b>(12,332 )</b>	<b>(10,678 )</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(8,715 )</b>	<b>(33,746 )</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>44,453</b>	<b>88,718</b>

Cash and Cash Equivalents - Ending	\$35,738	\$54,972
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SUPPLEMENTARY CASH FLOWS INFORMATION

Income taxes paid (refunded)	\$(304)	) \$-
Interest paid	\$1,360	\$2,307

See Notes to Consolidated Financial Statements

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NORTHEAST COMMUNITY BANK  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the “Company”) is a Federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the “Bank”), in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiary, New England Commercial Properties, LLC (“NECP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of March 31, 2011, NECP had title to two multi-family properties. The Bank accepted a deed-in-lieu of foreclosure and transferred the first property to NECP on November 19, 2008. In addition, the Bank accepted a deed-in-lieu of foreclosure and transferred the second property to NECP on November 30, 2010.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders’ equity and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2010 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, stockholders’ equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2010.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses. In preparing these consolidated financial statements, the Company evaluated the events that occurred after March 31, 2011 and through the date these consolidated financial statements were issued.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and, during the three-month periods ended March 31, 2011 and 2010, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan (“ESOP”) are not included in the

weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings per common share until they are committed to be released.

NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2010 and March 31, 2011, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2010, the Company had allocated 103,684 shares to participants, and an additional 25,921 shares had been committed to be released. As of March 31, 2011, the Company had allocated 129,605 shares to participants, and an additional 6,480 shares had been committed to be released. The Company recognized compensation expense of \$40,000 and \$42,000 during the three-month periods ended March 31, 2011 and 2010, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

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## NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN (“DRP”)

Periodic expenses for the Company’s DRP were as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Service cost	\$ 13	\$ 14
Interest cost	10	10
Amortization of prior service cost	5	5
Amortization of actuarial loss	1	2
<b>Total</b>	<b>\$ 29</b>	<b>\$ 31</b>

This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The amortization of prior service cost and actuarial loss in the three-month periods ended March 31, 2011 and 2010 is also reflected as a reduction in other comprehensive income during the period.

## NOTE 5 – INVESTMENTS

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	\$ 101	\$ 2	\$ -	\$ 103
Federal National Mortgage Association	54	2	-	56
<b>Total</b>	<b>\$ 155</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 159</b>
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association	\$ 13,811	\$ 215	\$ -	\$ 14,026
Federal Home Loan Mortgage Corporation	335	7	1	341
Federal National Mortgage Association	335	8	-	343
Collateralized mortgage obligations-GSE	4,322	112	-	4,434
Other	1	-	-	1
<b>Total Mortgage-backed securities - residential</b>	<b>18,804</b>	<b>342</b>	<b>1</b>	<b>19,145</b>
U.S. Government agencies	985	-	3	982
<b>Total</b>	<b>\$ 19,789</b>	<b>\$ 342</b>	<b>\$ 4</b>	<b>\$ 20,127</b>

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
Securities available for sale:				
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation				
	\$ 102	\$ 4	\$ -	\$ 106
Federal National Mortgage Association				
	55	1	-	56
Total	\$ 157	\$ 5	\$ -	\$ 162
Securities held to maturity:				
Mortgage-backed securities – residential:				
Government National Mortgage Association				
	\$ 14,521	\$ 355	\$ -	\$ 14,876
Federal Home Loan Mortgage Corporation				
	345	11	-	356
Federal National Mortgage Association				
	352	9	-	361
Collateralized mortgage obligations-GSE				
	4,639	109	-	4,748
Other				
	1	-	-	1
Total	\$ 19,858	\$ 484	\$ -	\$ 20,342



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## NOTE 5 – INVESTMENTS (Continued)

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

	March 31, 2011	
	Amortized	
	Cost	Fair Value
	(In Thousands)	
Due after ten years	\$ 155	\$ 159
	\$ 155	\$ 159

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

	March 31, 2011	
	Amortized	
	Cost	Fair Value
	(In Thousands)	
Due after one but within five years	\$ 5	\$ 5
Due after five but within ten years	284	289
Due after ten years	18,515	18,851
	\$ 18,804	\$ 19,145

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

Contractual final maturities of U.S. Government agency securities held to maturity were as follows:

	March 31, 2011	
	Amortized	
	Cost	Fair Value
	(In Thousands)	
Due after five but within ten years	\$ 985	\$ 982
	\$ 985	\$ 982

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to potential calling of these securities by the issuers.

The age of unrealized losses and the fair value of related securities available for sale and held to maturity were as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross

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	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
March 31, 2011						
U.S. Government agencies	\$982	\$3	\$-	\$-	\$982	\$3
Mortgage-backed						
Securities-FHLMC	225	1	-	-	225	1
	\$1,207	\$4	\$-	\$-	\$1,207	\$4
December 31, 2010						
Mortgage backed						
Securities-FHLMC	\$-	\$-	\$-	\$-	\$-	\$-
	\$-	\$-	\$-	\$-	\$-	\$-

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## NOTE 5 – INVESTMENTS (Continued)

At March 31, 2011, six mortgage-backed securities and one U.S. Government agency security had unrealized losses. Management concluded that the unrealized losses reflected above for these securities were temporary in nature since they were primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities. Additionally, as the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market recovery, these investments are not considered to be other-than-temporarily impaired.

## NOTE 6 – FAIR VALUE DISCLOSURES

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
March 31, 2011:				
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	\$ 103	\$ -	\$ 103	\$ -
Federal National Mortgage Association	56	-	56	-

December 31, 2010:

Mortgage-backed securities - residential:

Federal Home Loan Mortgage Corporation	\$ 106	\$ -	\$ 106	\$ -
Federal National Mortgage Association	56	-	56	-

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## NOTE 6 – FAIR VALUE DISCLOSURES (Continued)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis at March 31, 2011 and December 31, 2010 are as follows:

Description	Total	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(In Thousands)				
March 31, 2011:				
Impaired loans	\$ 9,989	\$ -	\$ -	\$ 9,989
December 31, 2010:				
Impaired loans	\$ 10,953	\$ -	\$ -	\$ 10,953

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010:

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

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

**Securities**

Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

**Loans**

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

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a current market rate. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by first reducing the carrying value by a credit risk adjustment based on internal loan classifications, and then discounting the estimated future cash flows from the remaining carrying value at a market rate.

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## NOTE 6 – FAIR VALUE DISCLOSURES (Continued)

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

## FHLB of New York Stock

The carrying amount of the FHLB of New York stock is equal to its fair value, and considers the limited marketability of this security.

## Deposit Liabilities

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

## FHLB of New York Advances

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

## Note Payable

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

## Off-Balance- Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At March 31, 2011 and December 31, 2010, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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

	At March 31, 2011		At December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
<b>Financial assets:</b>				
Cash and cash equivalents	\$35,738	\$35,738	\$44,453	\$44,453
Certificates of deposit	2,988	2,988	2,988	2,988
Securities available for sale	159	159	162	162
Securities held to maturity	19,789	20,127	19,858	20,342
Loans receivable	362,812	367,953	364,798	372,322

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FHLB stock	1,884	1,884	1,884	1,884
Accrued interest receivable	1,727	1,727	1,704	1,704
Financial liabilities:				
Deposits, including accrued interest	314,062	317,118	326,830	330,471
FHLB advances	25,000	27,562	25,000	26,759
Note payable	170	187	168	173



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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES

	March 31, 2011	December 31, 2010
	(In Thousands)	
Residential real estate:		
One-to-four family	\$ 203	\$ 211
Multi-family	193,370	190,042
Mixed use	53,275	55,244
	246,848	245,497
Non-residential real estate		
Construction	97,151	100,925
Commercial	13,031	12,913
Consumer	12,746	12,140
	70	63
<b>Total Loans</b>	<b>369,846</b>	<b>371,538</b>
Allowance for loan losses	(7,908 )	(7,647 )
Deferred loan fees and costs	874	907
<b>Net Loans</b>	<b>\$ 362,812</b>	<b>\$ 364,798</b>

The following is an analysis of the allowance for loan losses:

Allowance for Loan Losses as of and for the Three Months Ended March 31, 2011 (in thousands)

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$3,924	\$1,560	\$ 2,083	\$ 80	\$-	\$7,647
Charge-offs	(67 )	-	-	-	-	(67 )
Recoveries	-	-	-	-	-	-
Provision	448	(139 )	49	(30 )	-	328
Ending balance	\$4,305	\$1,421	\$ 2,132	\$ 50	\$-	\$7,908
Ending balance: individually evaluated for impairment	\$628	\$-	\$ 1,839	\$-	\$-	\$2,467
Ending balance: collectively evaluated for impairment	\$3,677	\$1,421	\$ 293	\$ 50	\$-	\$5,441
Loan receivables:						
Ending balance	\$246,848	\$97,151	\$ 13,031	\$ 12,746	\$ 70	\$369,846
Ending balance: individually evaluated for impairment	\$8,081	\$8,533	\$ 10,284	\$-	\$-	\$26,898

Ending balance: collectively evaluated for impairment	\$238,767	\$88,618	\$ 2,747	\$ 12,746	\$70	\$342,948
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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses for the Year Ended December 31, 2010 (in thousands)

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
<b>Allowance for credit losses:</b>						
Beginning balance	\$3,948	\$2,495	\$ 186	\$ 104	\$-	\$6,733
Charge-offs	(1,211 )	(1,407 )	-	-	-	(2,618 )
Recoveries	45	-	-	-	-	45
Provision	1,142	472	1,897	(24 )	-	3,487
Ending balance	\$3,924	\$1,560	\$ 2,083	\$ 80	\$-	\$7,647
Ending balance: individually evaluated for impairment						
	\$368	\$82	\$ 1,756	\$-	\$-	\$2,206
Ending balance: collectively evaluated for impairment						
	\$3,556	\$1,478	\$ 327	\$ 80	\$-	\$5,441
<b>Loan receivables:</b>						
Ending balance	\$245,497	\$100,925	\$ 12,913	\$ 12,140	\$63	\$371,538
Ending balance: individually evaluated for impairment						
	\$7,696	\$10,399	\$ 11,575	\$-	\$-	\$29,670
Ending balance: collectively evaluated for impairment						
	\$237,801	\$90,526	\$ 1,338	\$ 12,140	\$63	\$341,868

The following is an analysis of the Company's impaired loans.

Impaired Loans as of March 31, 2011 (in thousands)

2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Residential real estate-Multi-family	\$5,909	\$5,909	\$-	\$5,866	\$40
Non-residential real estate	8,533	8,533	-	8,526	28
Construction	-	-	-	-	-
Subtotal	14,442	14,442	-	14,392	68
<b>With an allowance recorded:</b>					
Residential real estate-Multi-family	2,172	2,172	628	2,112	-
Non-residential real estate	-	-	-	-	-
Construction	10,284	10,284	1,839	10,227	-
Subtotal	12,456	12,456	2,467	12,339	-
<b>Total:</b>					

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Residential real estate-Multi-family	8,081	8,081	628	7,978	40
Non-residential real estate	8,533	8,533	-	8,526	28
Construction	10,284	10,284	1,839	10,227	
Total	\$26,898	\$26,898	\$2,467	\$26,731	\$68

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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

The following is an analysis of the Company's impaired loans.

Impaired Loans for the Year Ended December 31, 2010 (in thousands)

2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate-Multi-family	\$6,608	\$6,608	\$-	\$6,505	\$246
Non-residential real estate	9,903	9,903	-	10,086	268
Construction	-	-	-	-	-
Subtotal	16,511	16,511	-	16,591	514
With an allowance recorded:					
Residential real estate-Multi-family	1,088	1,088	368	1,147	-
Non-residential real estate	496	496	82	414	5
Construction	11,575	11,575	1,756	11,696	464
Subtotal	13,159	13,159	2,206	13,257	469
Total:					
Residential real estate-Multi-family	7,696	7,696	368	7,652	246
Non-residential real estate	10,399	10,399	82	10,500	273
Construction	11,575	11,575	1,756	11,696	464
Total	\$29,670	\$29,670	\$2,206	\$29,848	\$983

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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

## Age Analysis of Past Due Loans as of March 31, 2011 (in Thousands)

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Residential real estate:							
One- to four-family	\$-	\$-	\$-	\$-	\$203	\$203	\$ -
Multi-family	-	257	6,047	6,304	187,066	193,370	-
Mixed-use	-	-	851	851	52,424	53,275	-
Non-residential real estate:							
Construction loans	-	1,666	10,284	11,950	1,081	13,031	-
Commercial loans	-	-	-	-	12,746	12,746	-
Consumer	-	-	-	-	70	70	-
Total loans	\$-	\$1,923	\$22,645	\$24,568	\$345,278	\$369,846	\$ -

## Age Analysis of Past Due Loans as of December 31, 2010 (in Thousands)

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Residential real estate:							
One- to four-family	\$-	\$-	\$-	\$-	\$211	\$211	\$ -
Multi-family	1,450	-	4,774	6,224	183,818	190,042	2,555
Mixed-use	-	-	-	-	55,244	55,244	-
Non-residential real estate:							
Construction loans	-	-	11,575	11,575	1,338	12,913	-
Commercial loans	-	-	-	-	12,140	12,140	-
Consumer	2	-	-	2	61	63	-
Total loans	\$1,452	\$-	\$21,806	\$23,258	\$348,280	\$371,538	\$ 2,555



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## NOTE 7 – LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

Credit Quality Indicators as of March 31, 2011 (in thousands)

Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
Grade:						
Pass	\$238,767	\$88,618	\$ 2,747	\$ 12,746	\$70	\$342,948
Special Mention	2,337	2,023	-	-	-	4,360
Substandard	5,744	6,510	10,284	-	-	22,538
Total	\$246,848	\$97,151	\$ 13,031	\$ 12,746	\$70	\$369,846

Credit Quality Indicators as of December 31, 2010 (in thousands)

Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial	Consumer	Total
Grade:						
Pass	\$237,801	\$90,526	\$ 1,338	\$ 12,140	\$63	\$341,868
Special Mention	2,625	4,942	-	-	-	7,567
Substandard	5,071	5,457	11,575	-	-	22,103
Total	\$245,497	\$100,925	\$ 12,913	\$ 12,140	\$63	\$371,538



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## NOTE 7 - LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

Loans Receivable on Nonaccrual Status as of March 31, 2011 and December 31, 2010 (in thousands)

	2011	2010
Residential real estate-Multi-family	\$6,898	\$2,219
Non-residential real estate	5,463	5,457
Construction loans	10,284	11,575
Total	\$22,645	\$19,251

## NOTE 8 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE

On June 29, 2007, the Company completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was \$28.0 million. At closing, the Company received \$10.0 million in cash and an \$18.0 million zero coupon promissory note recorded at its then present value of \$16.3 million (the “Original Note”). The Original Note was payable in two \$9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Company received \$2.0 million in cash and a new \$7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining \$1.9 million balance on the New Note were rolled into a new \$10.9 million note payable on July 31, 2009 (the “Combined Note”). On July 29, 2009, prior to the due date, the \$10.9 million Combined Note was extended to January 31, 2010. The amount due on such date included interest and expenses. The Company and the borrower agreed in December 2010 to extend the term of the Combined Note to June 30, 2011 after the borrower paid \$1.9 million in cash to the Company in the fourth quarter of 2010. The payment represents \$1.5 million in interest income for 2009 and 2010 and \$377,000 in pre-paid interest for the six months ending June 30, 2011. The Combined Note is secured by 100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a first mortgage on the Property. Based on a current appraisal, the loan to value is approximately 35%. The Company recognized interest income of \$188,000 during the three months ended March 31, 2011 and \$1.5 million in interest income in 2010 since it believes the collection of the principal balance is assured. This note is not treated as a loan or extension of credit for purposes of the regulatory limits on loans to one borrower.

In connection with the sale of the branch office building, the Company entered into a 99-year lease agreement to enable the Company to retain a branch office at 1353-55 First Avenue. This lease will be effective upon the completion of the renovation of the property. The Company has temporarily relocated our First Avenue branch office to 1470 First Avenue while 1353-55 First Avenue is being renovated.

## NOTE 9 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has issued Accounting Standards Update (“ASU”) 2011-02, A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring, to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors. This ASU clarifies guidance on a creditor’s evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than a focus on specific criteria, such as the effective interest rate test, to determine a concession. This ASU provides guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor’s evaluation of

whether or not a debtor is experiencing financial difficulties. For public entities, the amendments in this ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The entity should also disclose information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. Early adoption is permitted. The Company is currently reviewing the effect on the Company's consolidated financial statements.

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NOTE 10 – STOCK REPURCHASE

On July 22, 2010, the Company announced that the Company's Board of Directors approved the repurchase for up to 297,563 shares, or approximately 5.0% of the Company's outstanding common stock held by persons other than NorthEast Community Bancorp MHC (the "MHC"). These repurchases will be conducted solely through a Rule 10b5-1 repurchase plan. Repurchased shares will be held in treasury. Through March 31, 2011, the Company has purchased 153,598 shares at a cost of \$925,000.

NOTE 11 – DIVIDEND RESTRICTION

The MHC held 7,273,750 shares, or 55.6%, of the Company's issued and outstanding common stock, and the minority public shareholders held 44.4% of outstanding stock, at March 31, 2011. The MHC filed notice with, and received approval by, the Office of Thrift Supervision ("OTS") to waive its right to receive cash dividends for the four fiscal quarters ending June 30, 2011.

The MHC has waived receipt of past dividends paid by the Company. The dividends waived are considered as a restriction on the retained earnings of the Company. As of March 31, 2011 and December 31, 2010, the aggregate retained earnings restricted for cash dividends waived were \$3,273,000 and \$3,055,000, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area, changes in real estate market values in the Company's market area, and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss or a series of losses could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included in the Company's annual report on Form 10-K for 2010.

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Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

First Quarter Performance Highlights

The Company's earnings for the quarter ended March 31, 2011 increased by \$312,000 over the same period in 2010. Net interest income increased from period to period primarily as a result of the cost of our interest-bearing liabilities decreasing more than the corresponding decrease in the yield on our interest-earning assets.

Non-performing loans increased by \$809,000, or 3.7%, to \$22.6 million as of March 31, 2011 from \$21.8 million as of December 31, 2010. The increase in non-performing loans is primarily attributable to the addition of four non-performing multi-family mortgage loans and one non-performing mixed-use mortgage loan totaling \$3.1 million, offset by the resolution of one multi-family mortgage loan and two construction mortgage loans totaling \$2.5 million that became performing as of March 31, 2011.

We will continue to monitor these loans closely and adjust the level of allowance for loan losses appropriately as updated information becomes available. In this regard, the Company's Special Assets Group reviews all non-performing loans, potential non-performing loans, and restructured loans each month. The monitoring of these loans by the Special Assets Group allows the Company to adjust its level of loan loss allowances quickly in response to even modest changes in the loan portfolio's performance.

In an effort to reduce our loan concentration and risk exposure, we have proactively discontinued offering new nonresidential real estate loans and construction loans effective the first quarter of 2009 and are not currently offering such loans.

In light of recent consolidation in the banking industry in Massachusetts and consistent with the Company's business plan, the Company intends to aggressively pursue opportunities to expand its business in Massachusetts, particularly in and around the I-495 corridor. In 2009, NorthEast Community Bank opened two branches in Massachusetts, one in Danvers and one in Plymouth, and we continue to look for other branch sites within our Massachusetts market area and recently entered into a real estate contract to purchase a branch located in Malden, which is subject to certain closing conditions. At this time, the Company is also focusing on opportunities to increase its loan production in Massachusetts in the areas of commercial real estate lending and commercial and industrial lending in a manner consistent with our conservative underwriting standards. We are also exploring expanding our product offerings to include one- to four- family lending within our market area in Massachusetts and insurance products. Beyond potential branch expansion, such growth in our product offerings may include the hiring of experienced lending professionals. There is no assurance that we will be successful in implementing our expansion plans or that we will be able to hire the employees necessary to implement our plans.



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Comparison of Financial Condition at March 31, 2011 and December 31, 2010

Total assets decreased by \$11.3 million, or 2.4%, to \$454.7 million at March 31, 2011 from \$466.0 million at December 31, 2010. The decrease in total assets was due to decreases of \$8.7 million in cash and cash equivalents, \$2.0 million in loans receivable, net, and \$610,000 in other assets, offset by an increase of \$146,000 in bank owned life insurance. These decreases primarily resulted from a decrease of \$12.8 million in deposits, partially offset by an increase of \$860,000 in advance payments by borrowers for taxes and insurance.

Cash and cash equivalents decreased by \$8.7 million, or 19.6%, to \$35.7 million at March 31, 2011, from \$44.5 million at December 31, 2010. The decrease in short-term liquidity funded a decrease of \$12.8 million in deposits, offset by an increase of \$860,000 in advance payments by borrowers for taxes and insurance.

Loans receivable, net, decreased by \$2.0 million, or 0.5%, to \$362.8 million at March 31, 2011 from \$364.8 million at December 31, 2010 due primarily to loan repayments totaling \$9.6 million and provision for loan losses, net of charge-offs, totaling \$261,000 that exceeded loan originations of \$7.9 million.

Other assets decreased by \$610,000, or 13.7%, to \$3.9 million at March 31, 2011 from \$4.5 million at December 31, 2010 due primarily to reductions in various income tax accounts and the amortization of prepaid FDIC premiums during the March 31, 2011 quarter. Bank owned life insurance increased by \$146,000, or 0.9%, to \$16.3 million at March 31, 2011 from \$16.1 million at December 31, 2010 due primarily to accrued earnings during the March 31, 2011 quarter.

Deposits decreased by \$12.8 million, or 3.9%, to \$314.1 million at March 31, 2011 from \$326.8 million at December 31, 2010. The decrease in deposits was primarily attributable to decreases of \$7.9 million in certificates of deposits, \$6.0 million in our NOW and money market accounts, and \$404,000 in non-interest bearing accounts, offset by increases of \$1.5 million in our regular savings accounts.

Advance payments by borrowers for taxes and insurance increased by \$860,000, or 25.4%, to \$4.2 million at March 31, 2011 from \$3.4 million at December 31, 2010 due primarily to accumulating balances paid into escrow accounts by borrowers.

Stockholders' equity increased by \$498,000, or 0.5%, to \$108.6 million at March 31, 2011, from \$108.1 million at December 31, 2010. This increase was primarily the result of comprehensive net income of \$882,000 and the amortization of \$40,000 for the ESOP for the period, partially offset by treasury stock purchases of \$261,000 and cash dividend declared of \$163,000.

Comparison of Operating Results for the Three Months Ended March 31, 2011 and 2010

General. Net income increased by \$312,000, or 59.7%, to \$835,000 for the quarter ended March 31, 2011, from \$523,000 for the quarter ended March 31, 2010. The increase was primarily the result of an increase of \$721,000 in net interest income, an increase of \$33,000 in non-interest income, and a decrease of \$115,000 in non-interest expense, offset by an increase of \$294,000 in provision for loan losses and an increase of \$263,000 in the provision for income taxes.

Net Interest Income. Net interest income increased by \$721,000, or 19.4%, to \$4.4 million for the three months ended March 31, 2011 from \$3.7 million for the three months ended March 31, 2010. The increase in net interest income resulted primarily from a decrease of \$947,000 in interest expense that exceeded a decrease of \$226,000 in interest income. The increase in net interest income was also due to an increase of \$6.6 million in average net

interest-earning assets that resulted from decreases of \$64.4 million in average deposits and borrowings that exceeded decreases of \$57.8 million in average loans, securities, and other interest-earning assets.



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The net interest spread increased by 113 basis points to 3.73% for the three months ended March 31, 2011 from 2.60% for the three months ended March 31, 2010. The net interest margin increased by 107 basis points between these periods from 3.03% for the quarter ended March 31, 2010 to 4.10% for the quarter ended March 31, 2011. The increase in the interest rate spread and the net interest margin in the first quarter of 2011 compared to the same period in 2010 was due to an increase in the yield on our interest-earning assets coupled with a decrease in the cost of our interest-bearing liabilities.

The yield on our interest-earning assets increased by 44 basis points to 5.36% for the three months ended March 31, 2011 from 4.92% for the three months ended March 31, 2010 and the cost of our interest-bearing liabilities decreased by 69 basis points to 1.63% for the three months ended March 31, 2011 from 2.32% for the three months ended March 31, 2010. The increase in the yield on our interest-earning assets was due to an increase in the yield on loans as a result of a \$13.0 million, or 36.4%, decrease in total non-performing loans to \$22.6 million as of March 31, 2011 from \$35.6 million as of March 31, 2010. The decrease in the cost of our interest-bearing liabilities was due to the low interest rate environment in 2010 which continued into the first quarter of 2011.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended March 31, 2011 and 2010.

## Net Interest Income.

The following table summarizes average balances and average yields and costs of interest-earning assets and interest-bearing liabilities for the three months ended March 31, 2011 and 2010.

	Three Months Ended March 31,					
	Average Balance	2011 Interest and Dividends	Yield/ Cost	Average Balance	2010 Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
<b>Assets:</b>						
<b>Interest-earning assets:</b>						
Loans	\$ 370,918	\$ 5,599	6.04 %	\$ 394,366	\$ 5,767	5.85 %
Securities (including FHLB stock)	22,083	185	3.35	23,594	202	3.42
Other interest-earning assets	38,843	7	0.07	71,683	48	0.27
Total interest-earning assets	431,844	5,791	5.36	489,643	6,017	4.92
Allowance for loan losses	(7,638 )			(6,726 )		
Non-interest-earning assets	34,052			37,729		
Total assets	\$ 458,258			\$ 520,646		
<b>Liabilities and equity:</b>						
<b>Interest-bearing liabilities:</b>						
Interest-bearing demand	\$ 80,509	\$ 160	0.79	\$ 74,029	\$ 240	1.30
Savings and club accounts	56,728	84	0.59	60,092	107	0.71
Certificates of deposit	174,269	941	2.16	228,874	1,663	2.91
	311,506	1,185	1.52	362,995	2,010	2.21

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Total interest-bearing deposits						
Borrowings	22,446	175	3.12	35,329	297	3.36
Total interest-bearing liabilities						
	333,952	1,360	1.63	398,324	2,307	2.32
Noninterest-bearing demand	9,507			9,350		
Other liabilities	5,812			5,382		
Total liabilities						
	349,271			413,056		
Stockholders' equity						
	108,987			107,590		
Total liabilities and Stockholders' equity						
	\$ 458,258			\$ 520,646		
Net interest income						
		\$ 4,431			\$ 3,710	
Interest rate spread						
			3.73			2.60
Net interest margin						
			4.10			3.03
Net interest-earning assets						
	\$ 97,892			\$ 91,319		
Interest-earning assets to interest-bearing liabilities						
	129.3	%		122.9	%	

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Total interest income decreased by \$226,000, or 3.8%, to \$5.8 million for the three months ended March 31, 2011, from \$6.0 million for the three months ended March 31, 2010. Interest income on loans decreased by \$168,000, or 2.9%, to \$5.6 million for the three months ended March 31, 2011 from \$5.8 million for the three months ended March 31, 2010. The average balance of the loan portfolio decreased by \$23.4 million to \$370.9 million for the three months ended March 31, 2011 from \$394.4 million for the three months ended March 31, 2010 as repayments outpaced originations. The average yield on loans increased by 19 basis points to 6.04% for the three months ended March 31, 2011 from 5.85% for the three months ended March 31, 2010 as a result of a \$13.0 million, or 36.4%, decrease in total non-performing loans to \$22.6 million as of March 31, 2011 from \$35.6 million as of March 31, 2010.

Interest income on securities decreased by \$17,000, or 8.4%, to \$185,000 for the three months ended March 31, 2011 from \$202,000 for the three months ended March 31, 2010. The decrease was primarily due to a decrease of \$1.5 million, or 6.4%, in the average balance of securities to \$22.1 million for the three months ended March 31, 2011 from \$23.6 million for the three months ended March 31, 2010. The decrease in the average balance was due to the principal repayments on investment securities and a decrease in FHLB New York stock. The decrease in interest income on securities was also due to a decrease of 7 basis points in the average yield on securities to 3.35% for the three months ended March 31, 2011 from 3.42% for the three months ended March 31, 2010. The decline in the yield was due to the re-pricing of the yield of our adjustable rate investment securities from March 31, 2010 to March 31, 2011.

Interest income on other interest-earning assets (consisting solely of interest-earning deposits) decreased by \$41,000, or 85.4%, to \$7,000 for the three months ended March 31, 2011 from \$48,000 for the three months ended March 31, 2010. The decrease was primarily due to a decrease of 20 basis points in the average yield on other interest-earning assets to 0.07% for the three months ended March 31, 2011 from 0.27% for the three months ended March 31, 2010. The decline in the yield was due to the maturity of higher yielding certificates of deposits at other financial institutions. The decline in interest income on other interest-earning assets was also due to a decrease of \$32.9 million, or 45.8%, in the average balance of other interest-earning assets to \$38.8 million for the three months ended March 31, 2011 from \$71.7 million for the three months ended March 31, 2010. The decrease in the average balance of other interest-earning assets was due to the decrease in cash and cash equivalents and certificates of deposits at other financial institutions.

Total interest expense decreased by \$947,000, or 41.0%, to \$1.4 million for the three months ended March 31, 2011 from \$2.3 million for the three months ended March 31, 2010. Interest expense on deposits decreased by \$825,000, or 41.0%, to \$1.2 million for the three months ended March 31, 2011 from \$2.0 million for the three months ended March 31, 2010. During this same period, the average interest cost of deposits decreased by 69 basis points to 1.52% for the three months ended March 31, 2011 from 2.21% for the three months ended March 31, 2010.

Due to an effort by the Company to decrease reliance on high cost certificates of deposits, the average balance of certificates of deposits decreased by \$54.6 million, or 23.9%, to \$174.3 million for the three months ended March 31, 2011 from \$228.9 million for the three months ended March 31, 2010. As a result of the decrease in the average balance of certificates of deposits, interest expense on our certificates of deposits decreased by \$722,000, or 43.4%, to \$941,000 for the three months ended March 31, 2011 from \$1.7 million for the three months ended March 31, 2010. The decrease in interest expense on our certificates of deposits was also due to a decrease in the interest cost of our certificates of deposits of 75 basis points to 2.16% for the three months ended March 31, 2011 from 2.91% for the three months ended March 31, 2010.

Interest expense on our other deposit products decreased by \$103,000, or 29.7%, to \$244,000 for the three months ended March 31, 2011 from \$347,000 for the three months ended March 31, 2010. The decrease was due to a decrease of 51 basis points in the cost of our interest-bearing demand deposits to 0.79% for the three months ended March 31, 2011 from 1.30% for the three months ended March 31, 2010 and a decrease of 12 basis points in the cost

of our savings and holiday club deposits to 0.59% for the three months ended March 31, 2011 from 0.71% for the three months ended March 31, 2010. The decrease was also due to a decrease of \$3.4 million, or 5.6%, in the average balance of our savings and holiday club deposits to \$56.7 million for the three months ended March 31, 2011 from \$60.1 million for the three months ended March 31, 2010, offset by an increase of \$6.5 million, or 8.8%, in our interest-bearing demand deposits to \$80.5 million for the three months ended March 31, 2011 from \$74.0 million for the three months ended March 31, 2010.

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Interest expense on borrowings decreased by \$122,000, or 41.1%, to \$175,000 for the three months ended March 31, 2011 from \$297,000 for the three months ended March 31, 2010. The decrease was primarily due to a decrease of \$12.9 million, or 36.5%, in the average balance of borrowed money to \$22.4 million for the three months ended March 31, 2011 from \$35.3 million for the three months ended March 31, 2010.

Interest expense on borrowings for the three months ended March 31, 2011 consisted of \$173,000 in interest expense on an average balance of \$22.3 million in FHLB advances and \$2,000 in interest expense on an average balance of \$168,000 on a note payable incurred in connection with the acquisition of the operating assets of Hayden Financial Group LLC (now operating as Hayden Wealth Management Group, the Bank's investment advisory and financial planning service division) in the fourth quarter of 2007. This compared to \$293,000 in interest expense on an average balance of \$35.0 million in FHLB advances and \$4,000 in interest expense on an average balance of \$329,000 on the note incurred in connection with the acquisition of Hayden Financial Group LLC for the three months ended March 31, 2010.

Provision for Loan Losses. The following table summarizes the activity in the allowance for loan losses and provision for loan losses for the three months ended March 31, 2011 and 2010.

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Allowance at beginning of period	\$ 7,647	\$ 6,733
Provision for loan losses	328	34
Charge-offs	(67 )	(393 )
Recoveries	-	-
Net charge-offs	(67 )	(393 )
Allowance at end of period	\$ 7,908	\$ 6,374
Allowance to nonperforming loans	34.92 %	17.90 %
Allowance to total loans outstanding at the end of the period	2.14 %	1.62 %
Net charge-offs (recoveries) to average loans outstanding during the period	0.02 %	0.10 %

The allowance to nonperforming loans ratio increased to 34.92% at March 31, 2011 from 17.90% at March 31, 2010 due primarily to the decrease in nonperforming loans to \$22.6 million at March 31, 2011 from \$35.6 million at March 31, 2010. The decrease in nonperforming loans was due to the identification, monitoring and resolution of several nonperforming loans that eventually were paid-off, became foreclosed properties and sold off, or became performing as of March 31, 2011.

The allowance for loan losses was \$7.9 million at March 31, 2011, \$7.7 million at December 31, 2010, and \$6.4 million at March 31, 2010. We recorded a provision for loan losses of \$328,000 for the three-month period ended March 31, 2011 compared to a provision for loan losses of \$34,000 for the three-month period ended March 31, 2010.

We charged-off \$67,000 against one non-performing multi-family mortgage loan during the three months ended March 31, 2011 compared to charge-offs of \$393,000 against five non-performing multi-family mortgage loans, two non-performing non-residential mortgage loans, and one performing multi-family mortgage loan during the three months ended March 31, 2010. We did not have any recoveries during the three months ended March 31, 2011 and March 31, 2010.

Non-interest Income. Non-interest income increased by \$33,000, or 8.5%, to \$421,000 for the three months ended March 31, 2011 from \$388,000 for the three months ended March 31, 2010. The increase was due to a \$30,000 increase in fee income generated by Hayden Wealth Management Group, the Company's investment advisory and financial planning services division, a \$7,000 loss on the disposition of a fixed asset, and a \$4,000 increase in other loan fees and service charges, offset by a \$7,000 decrease in earnings on bank owned life insurance and a \$1,000 decrease in other non-interest income.

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Non-interest Expense. Non-interest expense decreased by \$115,000, or 3.5%, to \$3.2 million for the three months ended March 31, 2011 from \$3.3 million for the three months ended March 31, 2010. The decrease resulted primarily from decreases of \$93,000 in salaries and employee benefits, \$57,000 in occupancy expense, \$2,000 in equipment expense, \$2,000 in FDIC insurance expense, and \$1,000 in advertising expense, which were partially offset by increases of \$30,000 in other non-interest expense and \$10,000 in real estate owned expenses.

Salaries and employee benefits, which represent 53.1% of the Company's non-interest expense, decreased by \$93,000, or 5.2%, to \$1.7 million in 2011 from \$1.8 million in 2010 due to a decrease in the number of full time equivalent employees to 87 at March 31, 2011 from 100 at March 31, 2010. The decrease was due to the sale of the Brooklyn branch office and a reduction in staff in various departments.

Occupancy expense decreased by \$57,000, or 17.1%, to \$276,000 in 2011 from \$333,000 in 2010 due to the elimination of the occupancy expenses associated with the Brooklyn branch office.

Other non-interest expense increased by \$30,000, or 4.4%, to \$709,000 in 2011 from \$679,000 in 2010 due mainly to increases of \$57,000 in legal fees, \$18,000 in audit and accounting fees, and \$2,000 in telephone expenses. These increases were partially offset by decreases of \$17,000 in office supplies and stationery, \$16,000 in miscellaneous non-interest expenses, \$6,000 in insurance expense, \$4,000 in directors compensation, \$2,000 in directors, officers and employee expenses, and \$2,000 in service contracts.

Real estate owned expenses increased to \$9,000 in 2011 compared to income of \$1,000 in 2010 due to maintenance and operation of two foreclosed properties (consisting of two multi-family properties) in 2011 compared to one foreclosed property in 2010.

Income Taxes. Income tax expense increased by \$263,000, or 106.9%, to \$509,000 for the three months ended March 31, 2011 from \$246,000 for the three months ended March 31, 2010. The increase resulted primarily from a \$575,000 increase in pre-tax income in 2011 compared to 2010. The effective tax rate was 37.8% for the three months ended March 31, 2011 and 32.0% for the three months ended March 31, 2010. The increase in the effective tax rate between periods was due to a lower percentage of our pre-tax income being tax-exempt.

## NON PERFORMING ASSETS

The following table provides information with respect to our non-performing assets at the dates indicated.

	At March 31, 2011	At December 31, 2010
	(Dollars in thousands)	
Non-accrual loans	\$ 22,645	\$ 19,251
Loans past due 90 days or more and accruing	-	2,555
Total nonaccrual and 90 days or more past due loans	22,645	21,806
Other non-performing loans	-	-
Total non-performing loans	22,645	21,806

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Real estate owned	933		933	
Total non-performing assets	23,578		22,739	
Troubled debt restructurings	26,755		30,893	
Total troubled debt restructurings and non-performing assets	\$ 50,333		\$ 53,632	
Total non-performing loans to total loans	6.12	%	5.87	%
Total non-performing loans to total assets	4.98	%	4.88	%
Total non-performing assets and troubled debt restructurings to total assets	11.07	%	11.51	%

Non-accrual loans at March 31, 2011 consisted of eighteen loans in the aggregate – eight multi-family mortgage loans, two mixed-use mortgage loans, three non-residential mortgage loans, and five construction mortgage loans.



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The eight non-accrual multi-family mortgage loans, net of a charge-off of \$445,000, totaled \$6.0 million at March 31, 2011, consisting of the following mortgage loans:

- (1) A delinquent loan with an outstanding balance of \$1.5 million secured by an apartment building. The Company filed a foreclosure action and we are waiting for the court to grant the Company's request for the appointment of a receiver for the property. We do not anticipate a loss on this loan.
- (2) A delinquent loan with an outstanding balance of \$1.2 million secured by an apartment building. The borrower and all his related properties are operating under Chapter 11 bankruptcy protection and are making regularly scheduled payments as approved by the Trustee. A hearing has been scheduled for June 2011 where the debtor will re-present the amended plan to the judge for discussion. Based on the current appraisal and the reorganization plan before the Court, we expect repayment of all principal and interest due on this loan. We do not anticipate a loss on this loan.
- (3) A delinquent loan with an outstanding balance of \$1.2 million secured by an apartment building. The delinquency is the result of a lawsuit claiming a title defect that affects the property, filed by the previous owner, claiming that the debtor never owned record title to the mortgage property. The Company filed a lawsuit seeking a declaration that the mortgage is a valid encumbrance against the property. A ruling on the Company's motion for Preliminary Injunction and Motion for Lis Pendens is expected no later than June 30, 2011. No trial date has been set, but we do not expect a trial date until early 2012. No reservation of rights has been raised by the title company and we and our attorneys are unaware of any defenses to coverage having been asserted by the title insurance company. We do not anticipate a loss on this loan.
- (4) An outstanding balance of \$857,000, net of a charge-off of \$445,000, secured by an apartment building. The Company has initiated a foreclosure action and a lawsuit on the general guarantee is progressing. Based on a signed contract of sale, the Company established a specific allowance of \$327,000 against the loan.
- (5) An outstanding balance of \$351,000 secured by an apartment building. Our foreclosure action is in the final stages of completion. We are currently negotiating with the borrower and his attorney for a loan modification, however if the modification discussions with the borrower are not successful in the short term, we will complete our foreclosure action. Based on a current appraisal and projected cash flow analysis, at this time, we do not anticipate a loss on this loan.
- (6) Three mortgage loans with an aggregate outstanding balance of \$964,000 secured by three separate apartment buildings. The Company was in the process of filing foreclosure actions which were stayed by the debtor filing for bankruptcy. Subsequent to March 31, 2011, the court expunged the note. As such, the properties are no longer subject of the bankruptcy estate. The Company is beginning foreclosure action on all three mortgages. Based on current appraisals, we do not expect any loss.

The two non-accrual mixed-use mortgage loans totaled \$852,000 at March 31, 2011, consisting of the following mortgage loans:

- (1) An outstanding balance of \$216,000 secured by a mixed-use apartment building. Following a default by the borrower on the loan, the Company commenced a foreclosure action in October 2010 and during the fourth quarter of 2010 the borrower entered into a sales contract in the amount of \$400,000, well in excess of the current debt. Subsequent to March 31, 2011, the borrower sold the apartment building and used a portion of the proceeds to satisfy the outstanding balance of \$216,000 owed to the Company.

(2) An outstanding balance of \$635,000 secured by a mixed-use apartment building. The Company anticipates shortly filing a foreclosure summons and complaint and a motion to appoint a receiver.

The three non-accrual non-residential mortgage loans, net of charge-offs of \$400,000, totaled \$5.5 million at March 31, 2011, consisting of the following mortgage loans:

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- (1) An outstanding balance of \$4.5 million secured by an office building. The managing member of the borrowing entity is the same individual as the managing member of the borrowing entity of the hotel construction loan referenced below. We have recently negotiated an agreement with the borrower to begin making partial payments during the foreclosure action and the suit on the personal guaranty. In return, the Company has agreed to forbear from collecting any judgment obtained in the pending lawsuits until December 31, 2011 (the maturity date) in the absence of a settlement agreement. Also under this agreement, the obligor will be required to make additional monthly payments equal to 100% of the net income from the property during the term of this agreement. While the foreclosure action is progressing, we will monitor the cash flow and require several capital improvements be made to the building to allow it to better compete in its office market. Based on a current appraisal and projected cash flow analysis, at this time, we do not anticipate any additional losses on this loan.
- (2) An outstanding balance of \$502,000 secured by a restaurant with 23 boat slips and a general guarantee of the borrower. We have received a Judgment of Foreclosure and Sale which has been scheduled for June 24, 2011. Based on a current appraisal, management anticipates full recovery of all outstanding amounts due on this loan.
- (3) An outstanding balance of \$437,000, net of a charge-off of \$400,000, secured by a strip shopping center and warehouse. The property was severely damaged by fire and the Company and borrower are currently suing the insurance company and the borrower's insurance agent as part of the Company's collection efforts. The borrower is making monthly escrow payments. We do not anticipate any additional losses on this loan and expect to recover all legal and court fees upon resolution of the suit.

The five non-accrual construction mortgage loans, net of loans in process of \$85,000, totaled \$10.3 million at March 31, 2011, consisting of the following mortgage loans:

- (1) Four construction mortgage loans with an aggregate outstanding balance of \$7.6 million (net of loans in process of \$85,000), representing a 25% interest in a participation loan, secured by a newly completed boutique hotel. Additional security consists of a general guarantee of the two principals and an assignment of LLC interests in two other properties. The managing member of the borrowing entity is the same individual as the managing member of the borrowing entity of the office building loan referenced above. The loan was restructured in 2010 and was current under the terms of a restructure agreement until October 2010. Although the hotel is now complete and in full operation, the winter season and poor economy has adversely affected the cash flow and the borrower has been unable to continue to meet its obligations based on the restructure agreement. At this time we are evaluating all of the available information, and in concert with the other participants, have been negotiating with several potential purchasers who have expressed an interest in purchasing the notes and mortgages. During the fourth quarter of 2010 and first quarter of 2011, specific allowances in the amount of \$1.6 million were recorded to cover the anticipated loss on the sale of the notes and mortgages. We will continue to negotiate with the interested parties and monitor the operations of the hotel.
- (2) A construction mortgage loan with an outstanding balance of \$2.7 million, representing a 20% interest in a participation loan, secured by two lots for a planned three phase residential condominium project. Phase one was completed and is not part of this loan. However, the construction project stalled and defaulted when the developer could not obtain construction financing from conventional lenders. The participating banks recently received and approved an all cash offer of \$2.5 million for the sale of the note. Based on this offer, we have established a specific allowance of \$203,000. Closing on the note sale is pending.

We are in the process of foreclosing on all of the multi-family, mixed-use, non-residential loans, and construction properties discussed above. Based on recent fair value analyses of these properties, the Company does not expect any

losses beyond the amounts already charged off or reserved for. All of the above-mentioned thirteen loans have been classified as substandard.

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending, and investing activities during any given period. Cash and cash equivalents totaled \$35.7 million at March 31, 2011 and consist primarily of interest-bearing deposits at other financial institutions and miscellaneous cash items. The Company can also borrow an additional \$60.8 million from the FHLB of New York to provide additional liquidity.

At March 31, 2011, we had \$25.0 million in loan commitments outstanding, consisting of \$14.5 million in unused commercial business lines of credit, \$7.9 million of real estate loan commitments, \$2.2 million in unused real estate equity lines of credit, \$271,000 in unused loans in process, and \$161,000 in consumer lines of credit. Certificates of deposit due within one year of March 31, 2011 totaled \$134.8 million. This represented 79.6% of certificates of deposit at March 31, 2011. We believe a large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we paid on the certificates of deposit due on or before March 31, 2011. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of deposit accounts and FHLB advances. At March 31, 2011, we had the ability to borrow \$60.8 million, net of \$25.0 million in outstanding advances, from the FHLB of New York. At March 31, 2011, we had no overnight advances outstanding. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to maintain or increase our core deposit relationships depending on our level of real estate loan commitments outstanding. Occasionally, we offer promotional rates on certain deposit products to attract deposits or to lengthen repricing time frames.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and for the repurchase, if any, of its shares of common stock. At March 31, 2011, the Company had liquid assets of \$17.9 million.

**Capital Management.** The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2011, the Bank exceeded all regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

**Off-Balance Sheet Arrangements.** In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit.

For the three months ended March 31, 2011 and the year ended December 31, 2010, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

**Qualitative Aspects of Market Risk.** The Company's most significant form of market risk is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread.

Our strategy for managing interest rate risk emphasizes: originating mortgage real estate loans that re-price to market interest rates in three to five years; purchasing securities that typically re-price within a three year time frame to limit exposure to market fluctuations; and, where appropriate, offering higher rates on long term certificates of deposit to lengthen the re-pricing time frame of our liabilities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, comprised of our Chief Executive Officer, Chief Financial Officer, Chief Mortgage Officer, Chief Retail Banking Officer and Treasurer, whose function is to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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

**Quantitative Aspects of Market Risk.** We use an interest rate sensitivity analysis prepared by the Office of Thrift Supervision to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in the net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. These analyses assess the risk of loss in market risk-sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 and 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement.

The following table presents the change in our net portfolio value at March 31, 2011 that would occur in the event of an immediate change in interest rates based on Office of Thrift Supervision assumptions, with no effect given to any steps that we might take to counteract that change.

Basis Point ("bp") Change in Rates	Net Portfolio Value (Dollars in thousands)			Net Portfolio Value as % of Portfolio Value of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change

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300	\$ 85,085	\$ (6,479)	(7 )%	19.61%	(86) bp
200	87,511	(4,053)	(4 )%	19.96%	(51) bp
100	89,633	(1,931)	(2 )%	20.24%	(23) bp
50	90,575	( 989 )	(1 )%	20.35%	(12) bp
0	91,564	-	-	20.47%	
(50 )	92,604	1,041	1 %	20.60%	13 bp
(100 )	94,691	3,127	3 %	20.93%	46 bp

We and the Office of Thrift Supervision use various assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the methods of analyses presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.



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Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future loan repayment activity.

Item 4. Controls and Procedures

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

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be party to various legal proceedings incident to our business. At March 31, 2011, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchases during the three months ended March 31, 2011.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31	7,300	\$5.99	7,300	180,063
February 1 to February 28	200	5.90	200	179,863
March 1 to March 31	35,898	6.04	35,898	143,965
Total	43,398	6.03	43,398	143,965

On July 22, 2010, the Board of Directors of the Company approved the repurchase of up to 297,563 shares of the Company's outstanding common stock held by persons other than NorthEast Community Bancorp MHC.

## Item 3. Defaults Upon Senior Securities

Not applicable

## Item 4. [Removed and Reserved]

## Item 5. Other Information

None

## Item 6. Exhibits

31.1 CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 CFO certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1 CEO and CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

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

Northeast Community Bancorp, Inc.

Date: May 16, 2011

By: /s/ Kenneth A. Martinek  
Kenneth A. Martinek  
President and Chief Executive Officer

Date: May 16, 2011

By: /s/ Salvatore Randazzo  
Salvatore Randazzo  
Executive Vice President, Chief  
Operating Officer and  
Chief Financial Officer

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ndoor training software and applications. The acquisition is not expected to be material. The completion of the acquisition is subject to customary regulatory approvals and closing conditions.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

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

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 29, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework" (2013 framework).

Based on such assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 29, 2018.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, issued an attestation report on management's effectiveness of the Company's internal control over financial reporting as of December 29, 2018, as stated in their report which is included herein. That attestation report appears below.

*(c) Attestation Report of the Independent Registered Public Accounting Firm*

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Garmin Ltd. and Subsidiaries

**Opinion on Internal Control over Financial Reporting**

We have audited Garmin Ltd. and Subsidiaries' internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Garmin Ltd. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Garmin Ltd. and Subsidiaries as of December 29, 2018 and December 30, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements") of the Company and our report dated February 20, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

### **Definition and Limitations of Internal Control Over Financial Reporting**

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Kansas City, Missouri

February 20, 2019

*(d) Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended December 29, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

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## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Garmin has incorporated by reference certain information in response or partial response to the Items under this Part III of this Annual Report on Form 10-K pursuant to General Instruction G(3) of this Form 10-K and Rule 12b-23 under the Exchange Act. Garmin's definitive proxy statement in connection with its annual meeting of shareholders scheduled for June 7, 2019 (the "Proxy Statement") will be filed with the Securities and Exchange Commission no later than 120 days after December 29, 2018.

#### **(a) Directors of the Company**

The information set forth in response to Item 401 of Regulation S-K under the headings "Proposal 5 – Re-election of five directors and election of one new director" in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

#### **(b) Executive Officers of the Company**

The information set forth in response to Item 401 of Regulation S-K under the heading "Executive Officers of the Registrant" in Part I of this Form 10-K is incorporated herein by reference in partial response to this Item 10.

#### **(c) Compliance with Section 16(a) of the Exchange Act**

The information set forth in response to Item 405 of Regulation S-K under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

#### **(d) Audit Committee and Audit Committee Financial Expert**

The information set forth in response to Item 402 of Regulation S-K under the heading "Board Meetings and Standing Committee Meetings - Audit Committee" in the Proxy Statement is hereby incorporated herein by reference in partial

response to this Item 10.

The Audit Committee consists of Joseph J. Hartnett, Charles W. Peffer and Rebecca R. Tilden. Mr. Peffer serves as the Chairman of the Audit Committee. All members of the Audit Committee are “independent” within the meaning of the rules of the SEC and the Nasdaq Marketplace Rules. Garmin’s Board of Directors has determined that Mr. Hartnett and Mr. Peffer are “audit committee financial experts” as defined by the SEC regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002.

(e) Code of Ethics

Garmin’s Board of Directors has adopted the Code of Conduct of Garmin Ltd. and Subsidiaries (the “Code”). The Code is applicable to all Garmin employees including the President and Chief Executive Officer, the Chief Financial Officer, the Controller and other officers. A copy of the Code is available on Garmin’s website at: [https://www8.garmin.com/aboutGarmin/invRelations/documents/Code\\_of\\_Conduct.pdf](https://www8.garmin.com/aboutGarmin/invRelations/documents/Code_of_Conduct.pdf). If any amendments to the Code are made, or any waivers with respect to the Code are granted to the President and Chief Executive Officer, the Chief Financial Officer or Controller, or any person performing a similar function, such amendment or waiver will be disclosed on Garmin’s website at: [https://www8.garmin.com/aboutGarmin/invRelations/documents/Code\\_of\\_Conduct.pdf](https://www8.garmin.com/aboutGarmin/invRelations/documents/Code_of_Conduct.pdf).

### **Item 11. Executive Compensation**

The information set forth in response to Item 402 of Regulation S-K under the headings “Executive Compensation Matters” and “Proposal 5 - Re-election of five directors and election of one new director – Non-Management Director Compensation” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

The information set forth in response to Item 407(e)(4) of Regulation S-K under the heading “Proposal 5 -Re-election of five directors and election of one new director – Compensation Committee Interlocks and Insider Participation; Certain Relationships” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

The information set forth in response to Item 407(e)(5) of Regulation S-K under the heading “Executive Compensation Matters – Compensation Committee Report” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information set forth in response to Item 403 of Regulation S-K under the heading “Stock Ownership of Certain Beneficial Owners and Management” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 12.

### **Equity Compensation Plan Information**

The following table gives information as of December 29, 2018 about the Garmin common shares that may be issued under all of the Company’s existing equity compensation plans, as adjusted for stock splits.

**A**

**B**

**C**  
**Number of securities remaining available for**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>future issuance under equity compensation plans (excluding securities reflected in column A)</b>
Equity compensation plans approved by shareholders	2,184,857	\$ 50.92	4,875,785
Equity compensation plans not approved by shareholders	—	—	—
Total	2,184,857	\$ 50.92	4,875,785

Table consists of the Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 5, 2010), the Garmin Ltd. 2000 Equity Incentive Plan, the Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan, effective June 5, 2010, the Garmin Ltd. Amended and Restated Employee Stock Purchase Plan, effective January 1, 2010 and the Garmin Ltd. 2011 Non-Employee Directors Equity Incentive Plan, effective June 3, 2011. The weighted-average exercise price does not reflect the shares that will be issued upon the payment of outstanding awards of RSUs.

The Company has no knowledge of any arrangement, the operation of which may at a subsequent date result in a change in control of the Company.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information set forth in response to Item 404 of Regulation S-K under the heading “Proposal 5 – Re-election of five directors and election of one new director - Compensation Committee Interlocks and Insider Participation; Certain Relationships” in the Proxy Statement is incorporated herein by reference in partial response to this Item 13.

The information set forth in response to Item 407(a) of Regulation S-K under the headings “Proposal 5 – Re-election of five directors and election of one new director” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 13.

### **Item 14. Principal Accounting Fees and Services**

The information set forth under the headings “Audit Matters -- Independent Registered Public Accounting Firm Fees” and “Pre-Approval of Services Provided by the Independent Auditor” in the Proxy Statement is hereby incorporated by reference in response to this Item 14.

## PART IV

### Item 15. Exhibits, and Financial Statement Schedules

#### (a) List of Documents filed as part of this Report

##### (1) Consolidated Financial Statements

The consolidated financial statements and related notes, together with the reports of Ernst & Young LLP, appear in Part II, Item 8 “Financial Statements and Supplementary Data” of this Form 10-K.

##### (2) Schedule II Valuation and Qualifying Accounts

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

(3) Exhibits -- The following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

#### EXHIBIT

#### NUMBER DESCRIPTION

3.1 Articles of Association of Garmin Ltd., as amended and restated on June 8, 2018.

3.2 Organizational Regulations of Garmin Ltd., as amended on February 14, 2014 (incorporated by reference to Exhibit 3.2 of the Registrant’s Annual Report on Form 10-K filed on February 19, 2014).

10.1 Garmin Ltd. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant’s Registration Statement on Form S-1 filed December 6, 2000 (Commission File No. 333-45514)).

10.2 Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Employees of Garmin International, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on September 7, 2004).

10.3

Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Employees of Garmin Corporation (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on September 7, 2004).

10.4

Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for UK-Approved Stock Options for Employees of Garmin (Europe) Ltd. (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on September 7, 2004).

10.5

Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Non UK-Approved Stock Options for Employees of Garmin (Europe) Ltd. (incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed on September 7, 2004).

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- 10.6 Garmin Ltd. 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 filed December 6, 2000 (Commission File No. 333-45514)).
- 10.7 Form of Stock Option Agreement pursuant to the Garmin Ltd. Non-Employee Directors' Option Plan for Non-Employee Directors of Garmin Ltd. (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on September 7, 2004).
- 10.8 Garmin Ltd. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed August 9, 2006).
- 10.9 First Amendment to Garmin Ltd. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K filed on March 27, 2002).
- 10.10 Second Amendment to Garmin Ltd. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on August 13, 2003).
- 10.11 Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.12 Form of Stock Option Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.13 Form of Stock Appreciation Rights Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2007).
- 10.14 Form of Stock Appreciation Rights Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.15 Amended and Restated Garmin Ltd. Employee Stock Purchase Plan effective January 1, 2008 (incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K filed on February 26, 2008).
- 10.16 Form of Time Vested Restricted Stock Unit Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 17, 2008).
- 10.17 Form of Performance Shares Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 17, 2008).
- 10.18 Garmin Ltd. 2009 Cash Incentive Bonus Plan (incorporated by reference to Exhibit 10.18 of the Registrant's Annual Report on Form 10-K filed on February 25, 2009)
- 10.19 Amended and Restated Garmin Ltd. Employee Stock Purchase Plan, effective January 1, 2010 (incorporated by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).





- 10.20 Form of Time Vested Restricted Stock Unit Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan, as revised by the Registrant's Board of Directors on December 11, 2009 (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).
- 10.21 Form of Performance Shares Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan, as revised by the Registrant's Board of Directors on December 11, 2009 (incorporated by reference to Exhibit 10.24 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).
- 10.22 Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 5, 2009) (incorporated by reference to Schedule 1 of the Registrant's Proxy Statement on Schedule 14A filed on April 21, 2009).
- 10.23 Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan, Effective June 5, 2009 (incorporated by reference to Schedule 2 of the Registrant's Proxy Statement on Schedule 14A filed on April 21, 2009).
- 10.24 Garmin Ltd. Amended and Restated 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.25 Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.26 Garmin Ltd. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.27 Garmin Ltd. Amended and Restated 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.28 Form of Stock Option Agreement pursuant to the Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.29 Form of Performance Shares Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.30 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss residents (incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.31 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss residents (incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.32 Transaction Agreement between Garmin Ltd., a Cayman Islands company, and the Registrant, dated as of May 21, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).



- 10.33 Form of Non-Qualified Stock Option Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, as amended and restated on June 27, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 29, 2011).
- 10.34 Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Schedule 1 of the Registrant's Definitive Proxy Statement on Form 14A filed on April 21, 2011).
- 10.35 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 6, 2011).
- 10.36 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss grantees (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.37 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Canadian grantees (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.38 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss and non-Canadian grantees (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.39 Memorandum of Agreement dated March 14, 2013 between Garmin International, Inc. and Bombardier, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2013).
- 10.40 Amendment dated December 6, 2013 to Memorandum of Agreement between Garmin International, Inc. and Bombardier, Inc. (incorporated by reference to Exhibit 10.40 of the Registrant's Annual Report on Form 10-K filed on February 19, 2014).
- 10.41 Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 7, 2013) (incorporated by reference to Schedule 1 of the Registrant's Proxy Statement on Schedule 14A filed on April 22, 2013).
- 10.42 Form of Director and Officer Indemnification Agreement entered into between Garmin Ltd. and each of its Directors and Executive Officers (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on August 8, 2014).
- 10.43 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to grantees who are executive officers (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on February 17, 2015).
- 10.44 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to grantees who are not executive officers (incorporated by reference to Exhibit 10.2 of the



- 10.45 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on February 17, 2015).
- 10.47 Garmin Ltd. Employee Stock Purchase Plan, as amended and restated on June 5, 2015 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 8, 2015).
- 10.48 Garmin Ltd. Employee Stock Purchase Plan, as amended and restated on October 21, 2016 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.49 Garmin Ltd. 2005 Equity Incentive Plan, as amended and restated on October 21, 2016 (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.50 Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on October 21, 2016 (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.51 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.52 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss grantees (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.53 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Canadian grantees (incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.54 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss and non-Canadian grantees (incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.55 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Swiss grantees who are executive officers (incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.56 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Swiss grantees who are not executive officers (incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).
- 10.57 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Canadian grantees who are not executive officers (incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).



10.58 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to non-Swiss and non-Canadian grantees who are executive officers (incorporated by reference to Exhibit 10.11 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).

10.59 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to non-Swiss and non-Canadian grantee grantees who are not executive officers (incorporated by reference to Exhibit 10.12 of the Registrant's Quarterly Report on Form 10-Q filed on October 26, 2016).

10.60 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss and non-Canadian grantees.

10.61 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to non-Swiss and non-Canadian grantees who are executive officers.

10.62 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to non-Swiss and non-Canadian grantee grantees who are not executive officers.

10.63 Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on February 15, 2019.

10.64 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on February 15, 2019.

21.1 List of subsidiaries

23.1 Consent of Ernst & Young LLP

24.1 Power of Attorney (included in signature page)

31.1 Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase

**(b) Exhibits.**

The exhibits listed on the accompanying Exhibit Index in Item 15(a)(3) are filed as part of, or are incorporated by reference into, this Annual Report on Form 10-K.

**(c) Financial Statement Schedules.**

Reference is made to Item 15(a)(2) above.

**Item 16. Form 10-K Summary**

None.

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**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS****Garmin Ltd. and Subsidiaries***(In thousands)*

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 29, 2018:					
Deducted from asset accounts					
Allowance for doubtful accounts	\$4,168	\$2,123	\$—	\$(804)	) \$5,487
Valuation allowance - Deferred Tax Asset	7,267	1,186	—	(3,885)	) 4,568
Total	\$11,435	\$3,309	\$—	\$(4,689)	) \$10,055
Year Ended December 31, 2017:					
Deducted from asset accounts					
Allowance for doubtful accounts <sup>(1)</sup>	\$14,669	\$1,021	\$—	\$(11,522)	) \$4,168
Valuation allowance - Deferred Tax Asset	4,622	3,077	—	(432)	) 7,267
Total	\$19,291	\$4,098	\$—	\$(11,954)	) \$11,435
Year Ended December 31, 2016:					
Deducted from asset accounts					
Allowance for doubtful accounts	\$13,805	\$4,137	\$—	\$(3,273)	) \$14,669
Valuation allowance - Deferred Tax Asset	2,781	1,966	—	(125)	) 4,622
Total	\$16,586	\$6,103	\$—	\$(3,398)	) \$19,291

<sup>(1)</sup> The \$11.5 million deduction from the allowance for doubtful accounts during the fiscal year ended December 30, 2017 was a result of the write-off of uncollectable accounts that had previously been fully reserved.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GARMIN LTD.

By/s/ Clifton A. Pemble  
Clifton A. Pemble  
President and Chief Executive Officer

Dated: February 20, 2019

## POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Clifton A. Pemble and Douglas G. Boessen and Andrew R. Etkind, and each of them, as his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 20, 2019.

/s/ Clifton A. Pemble  
Clifton A Pemble  
*Director, President and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ Douglas G. Boessen  
Douglas G. Boessen  
*Chief Financial Officer and Treasurer*  
*(Principal Financial Officer and Principal Accounting Officer)*

/s/ Min H. Kao  
Min H. Kao  
*Executive Chairman*

/s/ Joseph J. Hartnett  
Joseph J. Hartnett  
*Director*

/s/ Jonathan C. Burrell  
Jonathan C. Burrell  
*Director*

/s/ Rebecca R. Tilden  
Rebecca R. Tilden  
*Director*

/s/ Charles W. Peffer  
Charles W. Peffer  
*Director*

**Garmin Ltd.**

**2018 Form 10-K Annual Report**

**Exhibit Index**

The following exhibits are attached hereto. See Part IV of this Annual Report on Form 10-K for a complete list of exhibits.

<b>Exhibit Number</b>	<b>Document</b>
<u>3.1</u>	<u>Articles of Association of Garmin Ltd., as amended and restated on June 8, 2018.</u>
<u>10.63</u>	<u>Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on February 15, 2019.</u>
<u>10.64</u>	<u>Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on February 15, 2019.</u>
<u>21.1</u>	<u>List of subsidiaries</u>
<u>23.1</u>	<u>Consent of Ernst &amp; Young LLP</u>
<u>31.1</u>	<u>Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Chief Executive Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Chief Financial Officer's Certification 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.LAB	XBRL Taxonomy Extension Label Linkbase

Exhibit  
101.PRE XBRL Taxonomy Extension Presentation Linkbase

Exhibit  
101.DEF XBRL Taxonomy Extension Definition Linkbase

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