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 September 30, 2023
OR

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

For the transition period from __________ to
Commission File Number: 001-41255

Ponce Financial Group, Inc.
(Exact Name of Registrant as Specified in its Charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**87-1893965** **(I.R.S. Employer Identification No.)**
2244 Westchester Avenue **Bronx, NY** **(Address of principal executive offices)**	**10462** **(Zip Code)**

Registrant's telephone number, including area code: (718) 931-9000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	PDLB	The NASDAQ Stock Market, LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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

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

As of November 8, 2023, the registrant had 23,653,600 shares of common stock, $0.01 par value per share, outstanding.

Auditor Firm Id: 339	Auditor Name: Mazars USA LLP	Auditor Location: New York, New York, USA

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

Ponce Financial Group, Inc. and Subsidiaries

Consolidated Statements of Financial Condition (Unaudited)
September 30, 2023 and December 31, 2022
(Dollars in thousands, except share data)

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Cash and due from banks:		
Cash [(1)]	$ 26,046	$ 31,977
Interest-bearing deposits [(1)]	90,966	22,383
Total cash and cash equivalents	117,012	54,360
Available-for-sale securities, at fair value (Note 3)	116,753	129,505
Held-to-maturity securities, net of allowance for credit losses of $647 at September 30, 2023 and $0 at December 31, 2022; at amortized cost (fair value 2023 $444,864; 2022 $495,851) (Note 3)	471,065	510,820
Placements with banks	996	1,494
Mortgage loans held for sale, at fair value (Note 4)	14,103	1,979
Loans receivable, net of allowance for credit losses of $27,414 at September 30, 2023 and $34,592 at December 31, 2022 (Note 5)	1,787,607	1,493,127
Accrued interest receivable	16,624	15,049
Premises and equipment, net (Note 6)	16,453	17,446
Right of use assets (Note 7)	32,110	33,423
Federal Home Loan Bank of New York (FHLBNY) stock, at cost	18,870	24,661
Deferred tax assets (Note 10)	15,984	16,137
Other assets	16,286	13,988
Total assets	$ 2,623,863	$ 2,311,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Note 8)	$ 1,401,132	$ 1,252,412
Operating lease liabilities	33,459	34,532
Accrued interest payable	8,385	1,390
Advance payments by borrowers for taxes and insurance	13,743	9,724
Borrowings (Note 9)	675,100	517,375
Other liabilities	6,986	3,856
Total liabilities	2,138,805	1,819,289
Commitments and contingencies (Note 13)		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized, 225,000 shares issued and outstanding as of September 30, 2023 and as of December 31, 2022.	225,000	225,000
Common stock, $0.01 par value; 200,000,000 shares authorized; 24,886,711 shares issued and 23,653,600 shares outstanding as of September 30, 2023 and 24,861,329 shares issued and 24,859,353 shares outstanding as of December 31, 2022	249	249
Treasury stock, at cost; 1,233,111 shares as of September 30, 2023 and 1,976 shares as of December 31, 2022 (Note 11)	(10,975)	(2)
Additional paid-in-capital	207,626	206,508
Retained earnings	96,902	92,955
Accumulated other comprehensive loss (Note 16)	(20,468)	(17,860)
Unearned compensation — ESOP; 1,469,167 shares as of September 30, 2023 and 1,569,475 shares as of December 31, 2022 (Note 11)	(13,276)	(14,150)
Total stockholders' equity	485,058	492,700
Total liabilities and stockholders' equity	$ 2,623,863	$ 2,311,989

(1)As of December 31, 2022, $2.1 million of Federal Reserve Bank ("FRB") cash were reclassified from Cash to Interest-bearing deposits.

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Ponce Financial Group, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)
Three and Nine Months Ended September 30, 2023 and 2022
(Dollars in thousands, except share data)

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Interest and dividend income:				
Interest on loans receivable	$ 25,276	$ 17,058	$ 67,991	$ 51,315
Interest on deposits due from banks	1,969	346	3,983	514
Interest and dividend on securities and FHLBNY stock	6,261	4,230	18,943	5,990
Total interest and dividend income	33,506	21,634	90,917	57,819
Interest expense:				
Interest on certificates of deposit (1)	4,362	855	11,468	2,361
Interest on other deposits (1)	5,639	1,375	12,864	2,154
Interest on borrowings	6,963	1,793	18,516	2,867
Total interest expense	16,964	4,023	42,848	7,382
Net interest income	16,542	17,611	48,069	50,437
Provision for credit losses (Note 3) (Note 5)	535	9,330	1,348	11,405
Net interest income after provision for credit losses	16,007	8,281	46,721	39,032
Non-interest income:				
Service charges and fees	516	464	1,488	1,349
Brokerage commissions	17	288	67	840
Late and prepayment charges	899	109	2,000	360
Income on sale of mortgage loans	173	116	354	734
Loan origination	—	522	—	1,843
Grant income	3,718	—	3,718	—
Loss on sale of premises and equipment	—	(436)	—	(436)
Other	304	514	1,311	1,292
Total non-interest income	5,627	1,577	8,938	5,982
Non-interest expense:				
Compensation and benefits	7,566	7,377	22,437	21,413
Occupancy and equipment	3,588	3,611	10,882	10,040
Data processing expenses	1,582	994	3,982	2,665
Direct loan expenses	369	654	1,126	2,033
Provision for contingencies	391	519	1,893	566
Insurance and surety bond premiums	255	297	768	600
Office supplies, telephone and postage	301	369	1,189	1,180
Professional fees	1,693	1,251	5,052	4,333
Contribution to the Ponce De Leon Foundation (Note 2)	—	—	—	4,995
Grain (recoveries) write-off (Note 5)	(69)	8,881	(1,329)	18,455
Marketing and promotional expenses	248	214	679	337
Directors' fees and regulatory assessment	169	188	484	509
Other operating expenses	1,223	1,061	3,603	2,931
Total non-interest expense	17,316	25,416	50,766	70,057
Income (loss) before income taxes	4,318	(15,558)	4,893	(25,043)
Provision (benefit) for income taxes (Note 10)	1,728	(820)	2,059	(4,256)
Net income (loss)	$ 2,590	$ (14,738)	$ 2,834	$ (20,787)
Earnings (loss) per common share (Note 12):				
Basic	$ 0.12	$ (0.64)	$ 0.12	$ (0.92)
Diluted	$ 0.12	$ (0.64)	$ 0.12	$ (0.92)
Weighted average common shares outstanding (Note 12):				
Basic	22,272,076	23,094,859	22,920,680	22,524,477
Diluted	22,349,217	23,094,859	22,962,956	22,524,477

(1)For the three and nine months ended September 30, 2022, $0.2 million of interest expense were reclassified from Interest on other deposits to Interest on certificates of deposits.

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Ponce Financial Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)
Three and Nine Months Ended September 30, 2023 and 2022
(In thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	$ 2,590	$ (14,738)	$ 2,834	$ (20,787)
Net change in unrealized losses on securities:				
Unrealized losses	(3,644)	(4,194)	(3,364)	(21,493)
Income (tax) benefit effect	773	806	756	4,529
Total other comprehensive loss, net of tax	(2,871)	(3,388)	(2,608)	(16,964)
Total comprehensive (loss) income	$ (281)	$ (18,126)	$ 226	$ (37,751)

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Ponce Financial Group, Inc. and Subsidiaries

Consolidated Statements of Stockholders’ Equity (Unaudited)
Nine Months Ended September 30, 2023 and 2022
(Dollars in thousands, except share data)

	Preferred Stock		Common Stock		Treasury Stock,	Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Unallocated Common Stock	
	Shares	Amount	Shares	Amount	At Cost	Capital	Earnings	(Loss)	of ESOP	Total
Balance, December 31, 2022	225,000	$ 225,000	24,859,353	$ 249	$ (2)	$ 206,508	$ 92,955	$ (17,860)	$ (14,150)	$ 492,700
Net income	—	—	—	—	—	—	331	—	—	331
Other comprehensive income, net of tax	—	—	—	—	—	—	—	1,231	—	1,231
Impact of CECL adoption, net of tax	—	—	—	—	—	—	1,113	—	—	1,113
Release of restricted stock units	—	—	4,147	—	—	—	—	—	—	—
ESOP shares committed to be released (33,436 shares)	—	—	—	—	—	(29)	—	—	291	262
Share-based compensation	—	—	—	—	—	404	—	—	—	404
Balance, March 31, 2023	225,000	$ 225,000	24,863,500	$ 249	$ (2)	$ 206,883	$ 94,399	$ (16,629)	$ (13,859)	$ 496,041
Net loss	—	—	—	—	—	—	(87)	—	—	(87)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(968)	—	(968)
Repurchases of common stock	—	—	(615,948)	—	(5,200)	—	—	—	—	(5,200)
Release of restricted stock units	—	—	21,235	—	—	—	—	—	—	—
ESOP shares committed to be released (33,436 shares)	—	—	—	—	—	—	—	—	292	292
Share-based compensation	—	—	—	—	—	404	—	—	—	404
Balance, June 30, 2023	225,000	$ 225,000	24,268,787	$ 249	$ (5,202)	$ 207,287	$ 94,312	$ (17,597)	$ (13,567)	$ 490,482
Net income	—	—	—	—	—	—	2,590	—	—	2,590
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(2,871)	—	(2,871)
Repurchases of common stock	—	—	(619,052)		(5,809)					(5,809)
Release of restricted stock units	—	—	3,865	—	36	(36)	—	—	—	—
ESOP shares committed to be released (33,436 shares)	—	—	—	—	—	(30)	—	—	291	261
Share-based compensation	—	—	—	—	—	405	—	—	—	405
Balance, September 30, 2023	225,000	$ 225,000	23,653,600	$ 249	$ (10,975)	$ 207,626	$ 96,902	$ (20,468)	$ (13,276)	$ 485,058

	Preferred Stock		Common Stock		Treasury Stock,	Additional Paid-in	Retained	Accumulated Other Comprehensive	Unallocated Common Stock	
	Shares	Amount	Shares	Amount	At Cost	Capital	Earnings	Loss	of ESOP	Total
Balance, December 31, 2021	—	$ —	17,425,987	$ 185	$ (13,687)	$ 85,601	$ 122,956	$ (1,456)	$ (4,343)	$ 189,256
Net loss	—	—	—	—	—	—	(6,820)	—	—	(6,820)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(5,579)	—	(5,579)
Second-step conversion and reorganization:										
Conversion and reorganization of PDL Community Bancorp	—	—	5,788,972	58	—	117,952	—	—	—	118,010
Retirement of treasury stock	—	—	—	(11)	13,687	(13,676)	—	—	—	—
Purchase of shares by the Employee Stock Ownership Plan ("ESOP")	—	—	1,097,353	11	—	10,963	—	—	(10,974)	—
Issuance of shares to the Ponce De Leon Foundation	—	—	399,522	4	—	3,991	—	—	—	3,995
Release of restricted stock units	—	—	12,440	—	—	—	—	—	—	—
ESOP shares committed to be released (35,119 shares)	—	—	—	—	—	61	—	—	305	366
Share-based compensation	—	—	—	—	—	351	—	—	—	351
Balance, March 31, 2022	—	$ —	24,724,274	$ 247	$ —	$ 205,243	$ 116,136	$ (7,035)	$ (15,012)	$ 299,579
Net income	—	—	—	—	—	—	771	—	—	771
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(7,997)	—	(7,997)
Issuance of preferred shares	225,000	225,000	—	—	—	—	—	—	—	225,000
ESOP shares committed to be released (35,119 shares)	—	—	—	—	—	21	—	—	303	324
Share-based compensation	—	—	—	—	—	405	—	—	—	405
Balance, June 30, 2022	225,000	$ 225,000	24,724,274	$ 247	$ —	$ 205,669	$ 116,907	$ (15,032)	$ (14,709)	$ 518,082
Net loss	—	—	—	—	—	—	(14,738)	—	—	(14,738)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(3,388)	—	(3,388)
Release of restricted stock units	—	—	4,186	—	—	—	—	—	—	—
ESOP shares committed to be released (35,119 shares)	—	—	—	—	—	18	—	—	304	322
Share-based compensation	—	—	—	—	—	405	—	—	—	405
Balance, September 30, 2022	225,000	$ 225,000	24,728,460	$ 247	$ —	$ 206,092	$ 102,169	$ (18,420)	$ (14,405)	$ 500,683

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Ponce Financial Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2023 and 2022
(In thousands)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash Flows From Operating Activities:		
Net income (loss)	$ 2,834	$ (20,787)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of premiums/discounts on securities, net	(90)	216
Gain on sale of loans	(277)	(7)
Gain on derivatives	—	(229)
Grain write-off	—	18,455
Provision for credit losses	1,348	11,405
Depreciation and amortization	3,249	1,371
ESOP compensation	815	1,038
Share-based compensation expense	1,213	1,161
Deferred income taxes	909	(5,473)
Changes in assets and liabilities:		
(Increase) decrease in mortgage loans held for sale, fair value	(42,768)	12,479
Increase in accrued interest receivable	(1,575)	(1,701)
Increase in other assets	(2,298)	(7,064)
Increase in accrued interest payable	6,995	626
Decrease in operating lease liabilities	(1,646)	—
Increase in advance payments by borrowers	4,019	2,932
Increase (decrease) in other liabilities	1,825	(192)
Net cash (used in) provided by operating activities	(25,447)	14,230
Cash Flows From Investing Activities:		
Proceeds from redemption of FHLBNY stock	241,818	135,291
Purchases of FHLBNY Stock	(236,037)	(143,562)
Purchases of available-for-sale securities	—	(58,385)
Purchases of held-to-maturity securities	—	(501,942)
Proceeds from maturities, calls and principal repayments on securities	48,586	26,798
Placements with banks	498	—
Proceeds from sales of loans	32,796	3,699
Net increase in loans	(294,628)	(102,572)
Purchases of premises and equipment	(370)	(433)
Net cash used in investing activities	(207,337)	(641,106)
Cash Flows From Financing Activities:		
Net increase in deposits	148,720	146,473
Proceeds from issuance of preferred stock	—	225,000
Repurchase of treasury stock	(11,009)	—
Contribution to the Ponce De Leon Foundation	—	(1,000)
Net proceeds from borrowings	157,725	180,120
Net advances on warehouse lines of credit	—	(15,090)
Net cash provided by financing activities	295,436	535,503
Net increase (decrease) in cash and cash equivalents	62,652	(91,373)
Cash and Cash Equivalents:		
Beginning	54,360	153,894
Ending	$ 117,012	$ 62,521
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	$ 35,853	$ 6,756
Cash paid for income taxes	$ 489	$ 624

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Nature of Business and Summary of Significant Accounting Policies

Basis of Presentation and Consolidation:

Ponce Financial Group, Inc. (hereafter referred to as “we,” “our,” “us,” “Ponce Financial Group, Inc.,” or the “Company”) is the holding company of Ponce Bank (“Ponce Bank” or the “Bank”), a federally chartered stock savings association. The Company’s Consolidated Financial Statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiary Ponce Bank (the “Bank”) and the Bank’s wholly-owned subsidiary, Ponce De Leon Mortgage Corp., which is a mortgage banking entity. All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations:

The Company is a savings and loan holding company. The Company is subject to the regulation and examination by the Board of Governors of the Federal Reserve. The Company’s business is conducted through the administrative office and 13 full service banking and 6 mortgage loan offices. The banking offices are located in New York City – the Bronx (4 branches), Queens (3 branches), Brooklyn (3 branches), Manhattan (2 branches) and Union City (1 branch), New Jersey. The mortgage loan offices are located in Queens (4) and Brooklyn (1), New York and Bergenfield (1), New Jersey. The Company’s primary market area currently consists of the New York City metropolitan area.

The Bank is a federally chartered stock savings association headquartered in the Bronx, New York. It was originally chartered in 1960 as a federally chartered mutual savings and loan association under the name Ponce De Leon Federal Savings and Loan Association. In 1985, the Bank changed its name to “Ponce De Leon Federal Savings Bank.” In 1997, the Bank changed its name again to “Ponce De Leon Federal Bank.” Upon the completion of its reorganization into a mutual holding company structure in September of 2017, the assets and liabilities of Ponce De Leon Federal Bank were transferred to and assumed by the Bank. The Bank is a Minority Depository Institution (“MDI”), a Community Development Financial Institution (“CDFI”), and a certified Small Business Administration (“SBA”) lender. The Bank is subject to comprehensive regulation and examination by the Office of Comptroller of the Currency (the “OCC”).

The Bank’s business primarily consists of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans, consisting of one-to-four family residential (both investor-owned and owner-occupied), multifamily residential, nonresidential properties and construction and land, and, to a lesser extent, in business and consumer loans. The Bank also invests in securities, which have historically consisted of U.S. government and federal agency securities and securities issued by government-sponsored or owned enterprises, mortgage-backed securities and Federal Home Loan Bank of New York (the “FHLBNY”) stock. The Bank offers a variety of deposit accounts, including demand, savings, money markets and certificates of deposit accounts.

Risks and Uncertainties:

Inflation and interest rates may continue to adversely impact several industries within our geographic footprint and impair the ability of the Company’s customers to fulfill their contractual obligations to the Company. This could cause the Company to experience adverse effects on its business operations, loan portfolio, financial condition, and results of operations. During the nine months ended September 30, 2023, total interest expenses increased $35.5 million, or 480.4%, to $42.8 million when compared to $7.4 million for the nine months ended September 30, 2022.

Summary of Significant Accounting Policies:

Use of Estimates: In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the consolidated statement of financial condition, and revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of loans held for sale, the valuation of deferred tax assets and investment securities and the estimates relating to the valuation for share-based awards.

Interim Financial Statements: The interim consolidated financial statements at September 30, 2023, and for the three and nine months ended September 30, 2023 and 2022 are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2023, or any other period.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within New York City. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the ability of Mortgage World, a division of the Bank, to sell originated loans in the secondary markets are susceptible to changes in the local market conditions. Note 3 discusses the types of securities in which the Bank invests. Notes 5 and 13 discuss the types of lending that the Bank engages in, and other concentrations.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and amounts due from banks (including items in process of clearing). For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash flows from loans originated by the Company, interest-bearing deposits in financial institutions, and deposits are reported net. Included in cash and cash equivalents are restricted cash from escrows and good faith deposits. Escrows consist of U.S. Department of Housing and Urban Development (“HUD”) upfront mortgage insurance premiums and escrows on unsold mortgages that are held on behalf of borrowers. Good faith deposits consist of deposits received from commercial loan customers for use in various disbursements relating to the closing of a commercial loan.

Securities: Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each statement of financial condition date.

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities, if any, are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held-to-maturity or trading, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Held-to maturity securities: Effective January 1, 2023, the Company adopted Accounting Standards Topic 326, "Financial Instruments - Credit Losses" which replaced the previously existing U.S. GAAP "incurred loss" approach to "expected credit losses" approach, which is referred as Current Expected Credit Losses ("CECL"). CECL modifies the accounting of impairment on held-for-sale debt securities by recognizing a credit loss through an allowance for credit losses. The Company methodology to measure the allowance for credit loss ("ACL") incorporates both quantitative and qualitative information to assess lifetime expected credit losses at the portfolio level. The quantitative component includes the calculation of loss rates using an open pool method. The Company differentiates its loss-rate method for a pool of held-to-maturity corporate securities by looking to publicly available historical default and recovery statistics based on the attributes of issuer type, rating category and time to maturity. The Company measures expected credit losses of these financial assets by applying loss rates to the amortized cost basis of each asset taking into consideration amortization, prepayment and default assumptions.

The Company considers qualitative adjustments to expected credit losses for information not already captured in the loss estimation process. Qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. Adjustments will not be made for information that has already been considered and included in the quantitative allowance.

Available-for-sale securities: The impairment model for available-for-sale ("AFS") debt securities differs from the CECL approach utilized by held-to-maturity ("HTM") debt securities since AFS debt securities are measured at fair value rather than amortized cost. For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income.

On a quarterly basis, the Company evaluates the available-for-sale securities for impairment. Securities that are in an unrealized loss position are reviewed to determine if a securities credit loss exists based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether an impairment exists include: (a) the extent to which the fair value is less than the amortized cost basis, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, and (d) whether the Company intends to sell the security and whether it is more likely than not the Company will not be required to sell the security.

If a determination is made that a security is impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as a securities credit loss as a provision expense through the establishment of an allowance for available for sale securities. The securities credit loss expense will be limited to the difference between the security's amortized cost basis and fair value and any future changes may be reversed, limited to the amount previously expensed in the period they occur. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the estimated fair value of investments should be recognized in current period earnings. The risks and uncertainties include change in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, and the expected recovery period. See Note 3 ("Securities") of the Notes to the Consolidated Financial Statements.

Federal Home Loan Bank of New York Stock: The Bank is a member of the FHLBNY. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLBNY stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at current unpaid principal balances, net of the allowance for credit losses on loans and including net deferred loan origination fees and costs.

Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments.

A loan is moved to nonaccrual status in accordance with the Company’s policy typically after 90 days of non-payment. The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan becomes 90 days past due unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off if collection of principal or interest is considered doubtful. All nonaccrual loans are considered impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash basis or recorded against principal balances, until qualifying for return to accrual. Cash basis interest recognition is only applied on nonaccrual loans with a sufficient collateral margin to ensure no doubt with respect to the collectability of principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and remain current for a period of time (typically six months) and future payments are reasonably assured. Accrued interest receivable is closely monitored for collectability and will be charged-off in a timely manner if deemed uncollectable. In the event that collection of principal becomes uncertain, the Company has policies in place to write-off accrued interest receivable by reversing interest income in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the amortized cost basis and therefore excludes it from the measurement of the allowance for credit losses (“ACL”).

Allowance for Credit Losses: The ACL on loans is management's estimate of expected credit losses over the expected life of the loans at the reporting date. The ACL on loans is increased through a provision for credit losses (“PCL”) recognized in the Consolidated Statements of Operations and by recoveries of amounts previously charged off. The ACL on loans is reduced by charge-offs on loans. Loan charge-offs are recognized when Management believes the collectability of the principal balance outstanding is unlikely. Full or partial charge-offs on collateral-dependent individually analyzed loans are generally recognized when the collateral is deemed to be insufficient to support the carrying value of the loan.

According to ASC 326-20-30-9, estimating expected credit losses is highly judgmental and generally will require Ponce Bank to make specific judgments. One of these specific judgments around how Ponce Bank will make or obtain reasonable and supportable forecasts of expected credit losses. Ponce Bank uses Federal Open Market Committee to obtain various forecasts for unemployment rate, national gross domestic product and the National Consumer Price Index. Ponce Bank has elected to forecast the first four quarters of the credit loss estimate and revert to a long-run average of each considered economic factor as permitted in ASC 326-20-30-9.

The level of the ACL on loans is based on Management's ongoing review of all relevant information, from internal and external sources, related to past events, current conditions and reasonable forecast. Historical credit loss experience provides the basis for calculation of probability of default, loss given default, exposure at default and the estimation of expected credit losses. As discussed further below, adjustments to historical information are made for differences in specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, that may not be reflected in historical loss rates.

Management employs a process and methodology to estimate the ACL on loans that evaluates both quantitative and qualitative factors. Under ASC 326-20-30-2 and 326-20-55-5, Ponce Bank should aggregate financial assets on the basis of similar risk characteristics. Management selected a Call Code segmentation, as based on the Bank's call report. Management's criteria for determining an appropriate segmentation (1) groups loans based on similar risk characteristics; (2) allows for mapping and utilization/application of publicly available external information (Call Report Filings); (3) allows for mapping and utilization/application of publicly available external information; (4) federal call code is granular enough to accommodate enough to accommodate a "like-kind" notion, yet broad enough to maintain statistical relevance and/or a meaningful number of loan observations within material segments and (5) federal call code designation is identifiable throughout historical data sets, which is critical component of segmentation selection.

Quantitative loss factors are also supplemented by certain qualitative risk factors reflecting Management's view of how losses may vary from those represented by quantitative loss rates. These qualitative risk factors include: (1) changes in lending policies, procedures and strategies including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses; (2) economic conditions such as the Bank's market area, customer demographics, portfolio composition, along with national indicators considered impactful to the model; (3) changes in the nature and volume of the portfolio; (4) credit and lending staff/administration; (5) problem with loan trends; (6) concentrations; (7) loan review results; (8) collateral values and regulatory and business environment.

Because the methodology is based upon historical experience and trends, current economic data, reasonable and supportable forecasts, as well as Management's judgment, factors may arise that result in different estimations. Deteriorating conditions or assumptions could lead to further increases in the ACL on loans. The ACL on loans is determined by an estimate of future credit losses, and ultimate losses may vary from Management's estimate.

Allowances for Credit Losses on Unfunded Commitments: The ACL on unfunded commitments is Management's estimate of expected credit losses over the expected credit losses over the expected contractual term (or life) in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditional cancellable by the Company. For each portfolio, estimated loss rates and funding factors are applied to the corresponding balance of unfunded commitments and the estimated loss rates applied to unfunded commitments are the same quantitative and qualitative loss rates applied to the corresponding on-balance sheet amounts in determining the ACL on loans. The estimated funding factor applied to unfunded commitments represents the likelihood that the funding will occur and is based upon the Company's average historical utilization rate each portfolio.

The ACL on unfunded commitments in included in other liabilities in the Consolidated Statements of Financial Conditions. The ACL on unfunded commitments is adjusted through non-interest expense in the Consolidated Statements of Operations.

Loans Held for Sale, at Fair Value: Loans held for sale, at fair value, include residential mortgages that were originated in accordance with secondary market pricing and underwriting standards. These loans are loans originated by the Bank's Mortgage World division and the Company intends to sell these loans on the secondary market. Loans held for sale are carried at fair value under the fair value option accounting guidance for financial assets and financial liabilities. The gains or losses for the changes in fair value of these loans are included in income on sale of loans on the consolidated statements of operations. Interest income on mortgage loans held for sale measured under the fair value option is calculated based on the principal amount of the loan and is included in interest loans receivable on the consolidated statements of operations. At September 30, 2023 and at December 31, 2022, 19 loans and 4 loans in the amount of $14.1 million and $2.0 million, respectively, were held for sale and accounted for under the fair value option accounting guidance for financial assets and financial liabilities.

Revenue from Contracts with Customers: The Company's revenue from contracts with customers in the scope of ASC 606, *Revenue from Contract with Customers*, is recognized within noninterest income. ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Management determined the revenue streams impacted by ASC 606 included those related to service charges on deposit accounts, ATM and card fees and other services fees. The Company's revenue recognition pattern for these revenue streams did not change from current practice. The Company's primary sources of revenue are interest income on financial assets and income from mortgage banking activities, which are explicitly excluded from the scope of ASC 606.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered. A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset, (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership, (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest, or recourse to the transferor other than standard representation or warranties, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through either (a) an agreement to repurchase them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

Premises and Equipment: Premises include the cost of land and buildings actually owned and occupied (or to be occupied) by the Bank, its branches, or consolidated subsidiaries. Equipment includes all movable furniture, fixtures, and equipment, including automobiles and other vehicles of the Bank, its branches and consolidated subsidiaries. Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation is the concept of allocating the cost of fixed assets over their estimated useful lives. Depreciation is computed and charged to operations using the straight-line method over the estimated useful lives of the respective assets as follows:

	Years
Buildings	39
Building improvements	15 - 39
Furniture, fixtures, and equipment	3 - 10

Leasehold improvements are amortized over the shorter of the improvements' estimated economic lives or the related lease terms, including extensions expected to be exercised. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized. Leasehold improvements in process are not amortized until the assets are placed in operation.

Impairment of Long-Lived Assets: Long-lived assets, including premises and leasehold improvements, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

Leases: The Company leases office space and certain equipment under non-cancellable operating lease agreements and determines if an arrangement is a lease at inception. The Company does not currently have any financing lease arrangements.

Right of use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right of use assets are recognized on the commencement date based on the present value of lease payments over the lease term adjusted for initial direct costs, if any, and lease incentives received or deemed probable of being received. The Company uses the rate implicit in the lease if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of Company leases are not readily determinable and accordingly, the Company uses its incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The Company uses its FHLBNY borrowing rate based on the information available on the commencement date plus a spread of 2.50% in determining the present value of lease payments.

Lease expense is recognized on a straight-line basis over the lease term and is included in "Occupancy and equipment" in the Consolidated Statement of Operations. Some of the Company's lease agreements include rental payments adjusted periodically for inflation which are accounted for as variable lease amounts but are not reflected as a component of the Company's lease liability. Certain leases also require the Company to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises or equipment which are also not reflected as a component of the Company's lease liability

Other Real Estate Owned: Other Real Estate Owned ("OREO") represents properties acquired through, or in lieu of, loan foreclosure or other proceedings. OREO is initially recorded at fair value, less estimated disposal costs, at the date of foreclosure, which establishes a new cost basis. After foreclosure, the properties are held for sale and are carried at the lower of cost or fair value, less estimated costs of disposal. Any write-down to fair value, at the time of transfer to OREO, is charged to the allowance for credit losses.

Properties are evaluated regularly to ensure that the recorded amounts are supported by current fair values and charges against earnings are recorded as necessary to reduce the carrying amount to fair value, less estimated costs to dispose. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the OREO, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

Income Taxes: The Company recognizes income taxes under the asset and liability method. 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income, in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits, if any, would be classified as additional provision for income taxes in the consolidated statements of operations.

Related Party Transactions: Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risk of collectability, nor favored treatment or terms, nor present other unfavorable features. Note 17 contains details regarding related party transactions.

Employee Benefit Plans: The Company maintains a KSOP, an Employee Stock Ownership Plan with 401(k) provisions incorporated, a Long-Term Incentive Plan that includes grants of restricted stock units and stock options, and a Supplemental Executive Retirement Plan (the "SERP").

KSOP, the Employee Stock Ownership Plan with 401(k) Provisions: Compensation expense is recorded as shares are committed to be released with a corresponding credit to unearned KSOP equity account at the average fair market value of the shares during the period and the shares become outstanding for earnings per share computations. Compensation expense is recognized ratably over the service period based upon management's estimate of the number of shares expected to be allocated by the KSOP. The difference between the average fair market value and the cost of the shares allocated by the KSOP is recorded as an adjustment to additional paid-in-capital. Unallocated common shares held by the Company's KSOP are shown as a reduction in stockholders' equity and are excluded from weighted-average common shares outstanding for both basic and diluted earnings per share calculations until they are committed to be released. The 401(k) provisions provide for elective employee/participant deferrals of income. Discretionary matching, profit-sharing, and safe harbor contributions, not to exceed 4% of employee compensation and profit-sharing contributions may be provided.

Stock Options: The Company recognizes the value of shared-based payment transactions as compensation costs in the financial statements over the period that an employee provides service in exchange for the award. The fair value of the share-based payments for stock options is estimated using the Black-Scholes option-pricing model. The Company accounts for forfeitures as they occur during the period.

Restricted Stock Units: The Company recognizes compensation cost related to restricted stock units based on the market price of the stock units at the grant date over the vesting period. The product of the number of units granted and the grant date market price of the Company's common stock determines the fair value of restricted stock units. The Company recognizes compensation expense for the fair value of the restricted stock units on a straight-line basis over the requisite service period.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), which are both recognized as separate components of stockholder's equity. Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the operations and financial position of the Company.

Fair Value of Financial Instruments: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Segment Reporting: Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (the "CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, the Company has determined that it operates as one operating segment and one reportable segment.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings (Loss) per Share ("EPS"): Basic EPS represents net income (loss) attributable to common shareholders divided by the basic weighted average common shares outstanding. Diluted EPS is computed by dividing net income (loss) attributable to common shareholders by the basic weighted average common shares outstanding, plus the effect of potential dilutive common stock equivalents outstanding during the period. Basic weighted common shares outstanding is weighted average common shares outstanding less weighted average unallocated ESOP shares.

Treasury Stock: Shares repurchased under the Company's share repurchase programs were purchased in open-market transactions and are held as treasury stock. The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity.

Reclassification of Prior Periods Presentation: Certain prior periods amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reporting results of operations and did not affect previously reported amounts in the Consolidated Statements of Operations. Refer to Deposits (Note 8) for the Three and Nine Months Ended September 30, 2022 for details on the reclassification.

CDFI Equitable Recovery Program: On September 26, 2023, the Bank received a $3.7 million grant from the U.S. Treasury as part of the Community Development Financial Institutions ("CDFI") Equitable Recovery Program ("ERP") which aims to help CDFI's further their mission of helping low and low-to-moderate income communities recover from the impact of the COVID-19 pandemic.

Recent Accounting Pronouncements Not Yet Adopted:

In March 2020, the FASB issued ASU 2020-04, *"Reference Rate Reform (Topic 848)."* This ASU provides optional means and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or other reference rates expected to be discontinued because of the reference rate reform. The amendments in this ASU were initially effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *"Reference Rate Reform (Topic 848): Deferral of the Sunset Date (Topic 848)."* This ASU extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. The Company is currently evaluating the impact the adoption of the standard will have on the Company's consolidated financial statements.

Note 2. Preferred Stock Issuance; Plan of Conversion and Stock Offering

Preferred Stock Issuance

On June 7, 2022, the Company closed a private placement (the "Private Placement") of 225,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 (the "Preferred Stock") for an aggregate purchase price equal to $225.0 million in cash, to the United States Department of the Treasury (the "Treasury") pursuant to the Emergency Capital Investment Program ("ECIP"). The holders of the Preferred Stock will be entitled to a dividend payable in cash quarterly at an annual rate dependent on certain factors as reported by the Company to Treasury in a quarterly supplemental report. The initial dividend rate is zero percent for the first two years after issuance, and thereafter the floor dividend rate is 0.50% and the ceiling dividend rate is 2.00%. After 10 years of issuance, the perpetual dividend rate in effect, will be determined based on said floor and ceiling. The actual dividend rate that will be paid by the Company on the Preferred Stock cannot be determined at this time.

The ECIP investment by the Treasury is part of a program to invest over $8.7 billion into Community Development Financial Institution ("CDFI") or Minority Depository Institution ("MDI"), of which Ponce Bank is both. The ECIP is intended to incentivize CDFIs and MDIs to provide loans, grants, and forbearance to small businesses, minority-owned businesses, and consumers in low-income and underserved communities that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic.

In the event of a liquidation, dissolution or winding up of the Company, the Preferred Stock will be entitled to a liquidation preference, subject to certain limitations, in the amount of the sum of $1,000 per share plus declared and unpaid dividends (without accumulation of undeclared dividends) on each share.

Conversion, Reorganization and Common Stock Offering

On May 25, 2021, Ponce Bank Mutual Holding Company and PDL Community Bancorp, the then holding company for Ponce Bank and Mortgage World Bankers, Inc., announced that their Boards of Directors had unanimously adopted a Plan of Conversion and Reorganization (the "Plan") pursuant to which Ponce Bank Mutual Holding Company and PDL Community Bancorp reorganized into a new stock holding company and conducted a second-step stock offering of new shares of common stock.

On January 26, 2022, Mortgage World transferred its assets and liabilities to Ponce Bank and ceased operating as an independent mortgage banking entity. Mortgage World's business is now conducted as a division of Ponce Bank.

On January 27, 2022, Ponce Financial Group, Inc. and PDL Community Bancorp announced that the conversion and reorganization of Ponce Bank Mutual Holding Company from the mutual to stock form of organization and related stock offering was consummated at the close of business. As a result of the closing of the conversion and reorganization and stock offering, Ponce Financial Group, Inc. is now the holding company for Ponce Bank. Ponce Bank's former mutual holding companies, PDL Community Bancorp and Ponce Bank Mutual Holding Company, have ceased to exist.

PDL Community Bancorp's stock ceased trading at the close of the market on January 27, 2022. Ponce Financial Group, Inc.'s common stock began trading on the Nasdaq Global Market under the same trading symbol "PDLB" on January 28, 2022.

As a result of the conversion and reorganization, each issued and outstanding share of PDL Community Bancorp common stock was converted into the right to receive 1.3952 shares of Ponce Financial Group, Inc. common stock. Cash was paid in lieu of any fractional shares based on the sale price in the offering of $10.00 per share. Ponce Financial Group Inc.'s total issued and outstanding shares on January 28, 2022 was 24,711,834 shares. All shares of treasury stock of PDL Community Bancorp were eliminated on January 27, 2022.

On January 27, 2022, the Company made a $5.0 million in contribution to the Ponce De Leon Foundation as part of the conversion and reorganization, which is included in the non-interest expense for the nine months ended September 30, 2022, in the accompanying Consolidated Statements of Operations.

Note 3. Securities

Adoption of Topic 326

Effective January 1, 2023, the Company adopted the provisions of Topic 326 using the modified retrospective method. Therefore, prior period comparative information has not been adjusted and continues to be reported under GAAP in effect prior to the adoption of Topic 326. There was no ACL on available-for-sale securities recognized upon the adoption of Topic 326.

The amortized cost, gross unrealized gains and losses, and fair value of securities at September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023 (in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government Bonds	$ 2,989	$ —	$ (276)	$ 2,713
Corporate Bonds	25,799	—	(2,609)	23,190
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations (1)	40,646	—	(7,657)	32,989
FHLMC Certificates	10,441	—	(1,904)	8,537
FNMA Certificates	62,771	—	(13,552)	49,219
GNMA Certificates	108	—	(3)	105
Total available-for-sale securities	$ 142,754	$ —	$ (26,001)	$ 116,753
Held-to-Maturity Securities:				
U.S. Agency Bonds	$ 25,000	$ —	$ (504)	$ 24,496
Corporate Bonds	82,500	—	(5,117)	77,383
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations (1)	217,632	—	(12,198)	205,434
FHLMC Certificates	3,923	—	(358)	3,565
FNMA Certificates	121,940	—	(8,818)	113,122
SBA Certificates	20,717	147	—	20,864
Allowance for Credit Losses	(647)	—	—	—
Total held-to-maturity securities	$ 471,065	$ 147	$ (26,995)	$ 444,864

(1)Comprised of Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Ginnie Mae ("GNMA") issued securities.

Table of Contents

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-Sale Securities:				
U.S. Government Bonds	$ 2,985	$ —	$ (296)	$ 2,689
Corporate Bonds	25,824	—	(2,465)	23,359
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations (1)	44,503	—	(6,726)	37,777
FHLMC Certificates	11,310	—	(1,676)	9,634
FNMA Certificates	67,199	—	(11,271)	55,928
GNMA Certificates	122	—	(4)	118
Total available-for-sale securities	$ 151,943	$ —	$ (22,438)	$ 129,505
Held-to-Maturity Securities:				
U.S. Agency Bonds	$ 35,000	$ —	$ (380)	$ 34,620
Corporate Bonds	82,500	57	(3,819)	78,738
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations (1)	235,479	192	(5,558)	230,113
FHLMC Certificates	4,120	—	(268)	3,852
FNMA Certificates	131,918	—	(5,227)	126,691
SBA Certificates	21,803	34	—	21,837
Total held-to-maturity securities	$ 510,820	$ 283	$ (15,252)	$ 495,851

(1)Comprised of FHLMC, FNMA and GNMA issued securities.

The Company's securities portfolio had 40 and 42 available-for-sale securities and 33 and 34 held-to-maturity securities at September 30, 2023 and December 31, 2022, respectively. There were no available-for-sale and held-to-maturity securities sold during the nine months ended September 30, 2023. There were no held-to-maturity securities and available-for-sale securities sold during the year ended December 31, 2022. One held-to-maturity security in the amount of $10.0 million matured and/or was called during the nine months ended September 30, 2023. Two available-for-sale securities in the amount of $5.4 million matured and/or were called during the year ended December 31, 2022. The Company did not purchase any available-for-sale securities and held-to-maturity securities during the nine months ended September 30, 2023 and purchased $58.4 million in available-for-sale securities and $528.9 million in held-to-maturity securities during the year ended December 31, 2022.

The following table presents the Company's gross unrealized losses and fair values of its securities, aggregated by the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2023 and December 31, 2022:

	September 30, 2023 Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available-for-Sale Securities:						
U.S. Government Bonds	$ —	$ —	$ 2,713	$ (276)	$ 2,713	$ (276)
Corporate Bonds	—	—	23,190	(2,609)	23,190	(2,609)
Mortgage-Backed Securities:						
Collateralized Mortgage Obligations	—	—	32,989	(7,657)	32,989	(7,657)
FHLMC Certificates	—	—	8,537	(1,904)	8,537	(1,904)
FNMA Certificates	—	—	49,219	(13,552)	49,219	(13,552)
GNMA Certificates	—	—	105	(3)	105	(3)
Total available-for-sale securities	$ —	$ —	$ 116,753	$ (26,001)	$ 116,753	$ (26,001)
Held-to-Maturity Securities:						
U.S. Agency Bonds	$ —	$ —	$ 24,496	$ (504)	$ 24,496	$ (504)
Corporate Bonds	3,206	(294)	74,177	(4,823)	77,383	(5,117)
Collateralized Mortgage Obligations	93,209	(4,667)	112,225	(7,531)	205,434	(12,198)
FHLMC Certificates	—	—	3,565	(358)	3,565	(358)
FNMA Certificates	—	—	113,122	(8,818)	113,122	(8,818)
Total held-to-maturity securities	$ 96,415	$ (4,961)	$ 327,585	$ (22,034)	$ 424,000	$ (26,995)

	December 31, 2022 Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available-for-Sale Securities:						
U.S. Government Bonds	$ —	$ —	$ 2,689	$ (296)	$ 2,689	$ (296)
Corporate Bonds	13,138	(1,186)	10,221	(1,279)	23,359	(2,465)
Mortgage-Backed Securities:						
Collateralized Mortgage Obligations	4,537	(300)	33,240	(6,426)	37,777	(6,726)
FHLMC Certificates	—	—	9,634	(1,676)	9,634	(1,676)
FNMA Certificates	12,111	(1,230)	43,817	(10,041)	55,928	(11,271)
GNMA Certificates	118	(4)	—	—	118	(4)
Total available-for-sale securities	$ 29,904	$ (2,720)	$ 99,601	$ (19,718)	$ 129,505	$ (22,438)
Held-to-Maturity Securities:						
U.S. Agency Bonds	$ 24,620	$ (380)	$ —	$ —	$ 24,620	$ (380)
Corporate Bonds	75,181	(3,819)	—	—	75,181	(3,819)
Collateralized Mortgage Obligations	215,300	(5,558)	—	—	215,300	(5,558)
FHLMC Certificates	3,177	(115)	675	(153)	3,852	(268)
FNMA Certificates	126,691	(5,227)	—	—	126,691	(5,227)
Total held-to-maturity securities	$ 444,969	$ (15,099)	$ 675	$ (153)	$ 445,644	$ (15,252)

At September 30, 2023 and December 31, 2022, the Company had 40 and 42 available-for-sale securities, respectively, and 30 and 27 held-to-maturity securities at September 30, 2023 and December 31, 2022, respectively, with gross unrealized loss positions. Management reviewed the financial condition of the entities underlying the securities at both September 30, 2023 and December 31, 2022. The unrealized losses related to the Company debt securities were issued by U.S. government-sponsored entities and agencies. The Company does not believe that the debt securities that were in an unrealized loss position as of September 30, 2023 represents a credit loss impairment. The gross unrealized loss positions related to mortgage-backed securities and other obligations issued by the

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

U.S. government agencies or U.S. government-sponsored enterprises carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates relative to when the investment securities were purchased and not due to the credit quality of the investment securities.

Management reviewed the collectability of the corporate bonds taking into consideration of such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings, including ratings in effect as of the reporting date. Management believes the unrealized losses on the corporate bonds are primarily attributable to changes in the interest rates and not changes in the credit quality of the issuers of the corporate bonds.

The following is a summary of maturities of securities at September 30, 2023 and December 31, 2022. Amounts are shown by contractual maturity. Because borrowers for mortgage-backed securities have the right to prepay obligations with or without prepayment penalties, at any time, these securities are included as a total within the table.

	September 30, 2023	
	Amortized Cost	Fair Value
	(in thousands)	
Available-for-Sale Securities:		
U.S. Government Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	2,989	2,713
More than five years through ten years	—	—
	2,989	2,713
Corporate Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	4,000	3,802
More than one year through five years	1,000	729
More than five years through ten years	20,799	18,659
	25,799	23,190
Mortgage-Backed Securities	113,966	90,850
Total available-for-sale securities	$ 142,754	$ 116,753
Held-to-Maturity Securities:		
U.S. Agency Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	25,000	24,496
More than five years through ten years	—	—
	25,000	24,496
Corporate Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	75,000	70,381
More than five years through ten years	7,500	7,002
	82,500	77,383
Mortgage-Backed Securities	364,212	342,985
Allowance for Credit Losses	(647)	—
Total held-to-maturity securities	$ 471,065	$ 444,864

	December 31, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Available-for-Sale Securities:		
U.S. Government Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	2,985	2,689
More than five years through ten years	—	—
	2,985	2,689
Corporate Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	4,000	3,710
More than five years through ten years	21,824	19,649
	25,824	23,359
Mortgage-Backed Securities	123,134	103,457
Total available-for-sale securities	$ 151,943	$ 129,505
Held-to-Maturity Securities:		
U.S. Agency Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	35,000	34,620
More than five years through ten years	—	—
	35,000	34,620
Corporate Bonds:		
Amounts maturing:		
Three months or less	$ —	$ —
More than three months through one year	—	—
More than one year through five years	75,000	71,328
More than five years through ten years	7,500	7,410
	82,500	78,738
Mortgage-Backed Securities	393,320	382,493
Total held-to-maturity securities	$ 510,820	$ 495,851

The following table presents the activity in the allowance for credit losses for held-to-maturity securities:

	September 30, 2023	December 31, 2022
Beginning balance	$ —	$ —
Impact on CECL adoption	662	—
Benefit for credit losses	(15)	—
Allowance for credit losses	$ 647	$ —

At September 30, 2023, 26 available-for-sale securities with a fair value totaling $90.7 million and 14 held-to-maturity securities with an amortized cost totaling $189.9 million were pledged at the Federal Reserve Bank of New York ("FRBNY") as collateral for borrowing activities. At December 31, 2022 six held-to-maturity securities with an amortized costs totaling $194.9 million were pledged at the FHLBNY as collateral for borrowing activities. No available-for-sale securities were pledged at December 31, 2022.

Note 4. Mortgage Loans Held for Sale

The following table provides the fair value and contractual principal balance outstanding of loans held for sale accounted for under the fair value options:

	September 30, 2023	December 31, 2022
	(in thousands)	
Mortgage loans held for sale, at fair value	$ 14,103	$ 1,979
Mortgage loans held for sale, contractual principal outstanding	13,998	1,979
Fair value less unpaid principal balance	$ 105	$ -

At September 30, 2023 and at December 31, 2022, the Bank had 19 loans and 4 loans in the amount of $14.1 million and $2.0 million, respectively, were held for sale and accounted for under the fair value option accounting guidance for financial assets and financial liabilities.

At September 30, 2023, there were $6.8 million in loans held for sale that were greater than 90 days past due and non-accrual with a substandard risk rating. At December 31, 2022, there were no loans held for sale that were greater than 90 days past due.

Note 5. Loans Receivable and Allowance for Credit Losses

Loans receivable at September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023	December 31, 2022
	(in thousands)	
Mortgage loans:		
1-4 Family residential		
Investor-Owned	$ 347,082	$ 343,968
Owner-Occupied	151,866	134,878
Multifamily residential	553,694	494,667
Nonresidential properties	321,472	308,043
Construction and land	411,383	185,018
Total mortgage loans	1,785,497	1,466,574
Nonmortgage loans:		
Business loans (1)	18,416	39,965
Consumer loans (2)	10,416	19,129
Total non-mortgage loans	28,832	59,094
Total loans, gross	1,814,329	1,525,668
Net deferred loan origination costs	692	2,051
Allowance for Credit Losses	(27,414)	(34,592)
Loans receivable, net	$ 1,787,607	$ 1,493,127

(1)As of September 30, 2023 and December 31, 2022, business loans include $1.1 million and $20.0 million, respectively, of SBA Paycheck Protection Program ("PPP") loans.

(2)As of September 30, 2023 and December 31, 2022, consumer loans include $9.3 million and $18.2 million, respectively, of microloans originated by Grain through its mobile application that is geared to the underbanked and new generations entering the financial services market and uses non-traditional underwriting methodologies.

The Company's lending activities are conducted principally in metropolitan New York City. The Company primarily grants loans secured by real estate to individuals and businesses pursuant to an established credit policy applicable to each type of lending activity in which it engages. Although collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrowers' ability to generate continuing cash flows. The Company also evaluates the collateral and creditworthiness of each customer. The credit policy provides that depending on the borrowers' creditworthiness and type of collateral, credit may be extended up to predetermined percentages of the market value of the collateral or on an unsecured basis. Real estate is the primary form of collateral. Other important forms of collateral are time deposits and marketable securities.

For disclosures related to the allowance for credit losses and credit quality, the Company does not have any disaggregated classes of loans below the segment level.

Credit-Quality Indicators: Internally assigned risk ratings are used as credit-quality indicators, which are reviewed by management on a quarterly basis.

The objectives of the Company's risk-rating system are to provide the Board of Directors and senior management with an objective assessment of the overall quality of the loan portfolio, to promptly and accurately identify loans with well-defined credit weaknesses so that timely action can be taken to minimize credit loss, to identify relevant trends affecting the collectability of the loan portfolio, to isolate potential problem areas and to provide essential information for determining the adequacy of the allowance for credit losses.

Below are the definitions of the internally assigned risk ratings:

- **Strong Pass** – Loans to a new or existing borrower collateralized at least 90 percent by an unimpaired deposit account at the Company.
- **Good Pass** – Loans to a new or existing borrower in a well-established enterprise in excellent financial condition with strong liquidity and a history of consistently high level of earnings, cash flow and debt service capacity.
- **Satisfactory Pass** – Loans to a new or existing borrower of average strength with acceptable financial condition, satisfactory record of earnings and sufficient historical and projected cash flow to service the debt.
- **Performance Pass** – Existing loans that evidence strong payment history but document less than average strength, financial condition, record of earnings, or projected cash flows with which to service the debt.

- **Special Mention** – Loans in this category are currently protected but show one or more potential weaknesses and risks which may inadequately protect collectability or borrower's ability to meet repayment terms at some future date if the weakness or weaknesses are not monitored or remediated.
- **Substandard** – Loans that are inadequately protected by the repayment capacity of the borrower or the current sound net worth of the collateral pledged, if any. Loans in this category have well defined weaknesses and risks that jeopardize the repayment. They are characterized by the distinct possibility that some loss may be sustained if the deficiencies are not remediated.
- **Doubtful** – Loans that have all the weaknesses of loans classified as "Substandard" with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

Loans within the top four categories above are considered pass rated, as commonly defined. Risk ratings are assigned as necessary to differentiate risk within the portfolio. Risk ratings are reviewed on an ongoing basis and revised to reflect changes in the borrowers' financial condition and outlook, debt service coverage capability, repayment performance, collateral value and coverage as well as other considerations.

The following tables present credit risk ratings by loan segment as of September 30, 2023 and December 31, 2022:

	September 30, 2023 (in thousands)						
	Mortgage Loans				Nonmortgage Loans		
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Total Loans
Risk Rating:							
Pass	$ 488,062	$ 553,694	$ 318,829	$ 404,726	$ 18,207	$ 10,416	$ 1,793,934
Special mention	3,129	—	2,544	—	—	—	5,673
Substandard	7,757	—	99	6,657	209	—	14,722
Total	$ 498,948	$ 553,694	$ 321,472	$ 411,383	$ 18,416	$ 10,416	$ 1,814,329

	December 31, 2022 (in thousands)						
	Mortgage Loans				Nonmortgage Loans		
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Total Loans
Risk Rating:							
Pass	$ 462,126	$ 492,556	$ 307,307	$ 173,351	$ 39,965	$ 19,129	$ 1,494,434
Special mention	7,692	1,437	606	—	—	—	9,735
Substandard	9,028	674	130	11,667	—	—	21,499
Total	$ 478,846	$ 494,667	$ 308,043	$ 185,018	$ 39,965	$ 19,129	$ 1,525,668

An aging analysis of loans, as of September 30, 2023 and December 31, 2022, is as follows:

	September 30, 2023 (in thousands)						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual Loans	90 Days or More Accruing
Mortgage loans:							
1-4 Family residential							
Investor-Owned	$ 346,686	$ —	$ —	$ 396	$ 347,082	$ 396	$ —
Owner-Occupied	149,732	—	—	2,134	151,866	2,134	—
Multifamily residential	553,694	—	—	—	553,694	—	—
Nonresidential properties	320,936	—	536	—	321,472	—	—
Construction and land	404,726	—	—	6,657	411,383	6,657	—
Nonmortgage loans:							
Business	18,159	48	—	209	18,416	209	—
Consumer	9,969	86	361	—	10,416	—	—
Total	$ 1,803,902	$ 134	$ 897	$ 9,396	$ 1,814,329	$ 9,396	$ —

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

	December 31, 2022						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual Loans	90 Days or More Accruing
	(in thousands)						
Mortgage loans:							
1-4 Family residential							
Investor-Owned	$ 340,495	$ 1,530	$ 78	$ 1,865	$ 343,968	$ 3,061	$ —
Owner-Occupied	131,510	2,553	—	815	134,878	2,987	—
Multifamily residential	490,024	4,643	—	—	494,667	—	—
Nonresidential properties	303,190	4,246	607	—	308,043	93	—
Construction and land	173,351	—	4,100	7,567	185,018	7,567	—
Nonmortgage loans:							
Business	27,657	1,466	7,869	2,973	39,965	—	2,973
Consumer	16,743	1,267	1,119	—	19,129	—	—
Total	$ 1,482,970	$ 15,705	$ 13,773	$ 13,220	$ 1,525,668	$ 13,708	$ 2,973

The following schedules detail the composition of the allowance for credit losses on loans and the related recorded investment in loans as of and for the three and nine months ended September 30, 2023 and 2022, and as of and for the year ended December 31, 2022:

	For the Nine Months Ended September 30, 2023							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
	(in thousands)							
Allowance for Credit Losses:								
Balance, beginning of period	$ 3,863	$ 1,723	$ 8,021	$ 2,724	$ 2,683	$ 120	$ 15,458	$ 34,592
Provision (benefit) charged to expense	33	257	653	(20)	2,276	193	(2,029)	1,363
Impact of CECL adoption	766	146	(3,962)	578	(911)	236	57	(3,090)
Charge-offs	—	—	—	—	—	—	(6,092)	(6,092)
Recoveries	—	—	—	—	—	3	638	641
Balance, end of period	$ 4,662	$ 2,126	$ 4,712	$ 3,282	$ 4,048	$ 552	$ 8,032	$ 27,414
Ending balance: individually evaluated for impairment	$ —	$ 71	$ —	$ —	$ —	$ 204	$ —	$ 275
Ending balance: collectively evaluated for impairment	4,662	2,055	4,712	3,282	4,048	348	8,032	27,139
Total	$ 4,662	$ 2,126	$ 4,712	$ 3,282	$ 4,048	$ 552	$ 8,032	$ 27,414
Loans:								
Ending balance: individually evaluated for impairment	$ 396	$ 2,134	$ —	$ —	$ 6,657	$ 209	$ —	$ 9,396
Ending balance: collectively evaluated for impairment	346,686	149,732	553,694	321,472	404,726	18,207	10,416	1,804,933
Total	$ 347,082	$ 151,866	$ 553,694	$ 321,472	$ 411,383	$ 18,416	$ 10,416	$ 1,814,329

	For the Three Months Ended September 30, 2023							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
	(in thousands)							
Allowance for loan losses:								
Balance, beginning of period	$ 4,776	$ 2,152	$ 4,738	$ 3,238	$ 3,189	$ 450	$ 9,630	$ 28,173
Provision (benefit) charged to expense	(114)	(26)	(26)	44	859	102	(89)	750
Losses charged-off	—	—	—	—	—	—	(1,592)	(1,592)
Recoveries	—	—	—	—	—	3	80	83
Balance, end of period	$ 4,662	$ 2,126	$ 4,712	$ 3,282	$ 4,048	$ 552	$ 8,032	$ 27,414

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

	For the Nine Months Ended September 30, 2022							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
	(in thousands)							
Allowance for loan losses:								
Balance, beginning of period	$ 3,540	$ 1,178	$ 5,684	$ 2,165	$ 2,024	$ 306	$ 1,455	$ 16,352
Provision (benefit) charged to expense	25	214	1,064	296	802	(235)	9,239	11,405
Charge-offs	—	—	—	—	—	—	(3,000)	(3,000)
Recoveries	156	39	—	—	—	94	62	351
Balance, end of period	$ 3,721	$ 1,431	$ 6,748	$ 2,461	$ 2,826	$ 165	$ 7,756	$ 25,108
Ending balance: individually evaluated for impairment	$ 69	$ 99	$ —	$ 37	$ —	$ —	$ —	$ 205
Ending balance: collectively evaluated for impairment	3,652	1,332	6,748	2,424	2,826	165	7,756	24,903
Total	$ 3,721	$ 1,431	$ 6,748	$ 2,461	$ 2,826	$ 165	$ 7,756	$ 25,108
Loans:								
Ending balance: individually evaluated for impairment	$ 8,352	$ 4,440	$ —	$ 1,587	$ 10,660	$ 359	$ —	$ 25,398
Ending balance: collectively evaluated for impairment	328,315	108,309	421,917	281,055	186,777	41,039	22,563	1,389,975
Total	$ 336,667	$ 112,749	$ 421,917	$ 282,642	$ 197,437	$ 41,398	$ 22,563	$ 1,415,373

	For the Three Months Ended September 30, 2022							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Total
	(in thousands)							
Allowance for loan losses:								
Balance, beginning of period	$ 3,607	$ 1,233	$ 6,374	$ 2,493	$ 2,262	$ 103	$ 1,463	$ 17,535
Provision (benefit) charged to expense	114	159	374	(32)	564	61	8,090	9,330
Losses charged-off	—	—	—	—	—	—	(1,799)	(1,799)
Recoveries	—	39	—	—	—	1	2	42
Balance, end of period	$ 3,721	$ 1,431	$ 6,748	$ 2,461	$ 2,826	$ 165	$ 7,756	$ 25,108

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

	For the Year Ended December 31, 2022							
	Mortgage Loans					Nonmortgage Loans		Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	For the Period
	(in thousands)							
Allowance for loan losses:								
Balance, beginning of year	$ 3,540	$ 1,178	$ 5,684	$ 2,165	$ 2,024	$ 306	$ 1,455	$ 16,352
Provision (benefit) charged to expense	167	506	2,337	559	659	(280)	20,098	24,046
Charge-offs	—	—	—	—	—	—	(6,660)	(6,660)
Recoveries	156	39	—	—	—	94	565	854
Balance, end of year	$ 3,863	$ 1,723	$ 8,021	$ 2,724	$ 2,683	$ 120	$ 15,458	$ 34,592
Ending balance: individually evaluated for impairment	$ 63	$ 96	$ —	$ 37	$ —	$ —	$ —	$ 196
Ending balance: collectively evaluated for impairment	3,800	1,627	8,021	2,687	2,683	120	15,458	34,396
Total	$ 3,863	$ 1,723	$ 8,021	$ 2,724	$ 2,683	$ 120	$ 15,458	$ 34,592
Loans:								
Ending balance: individually evaluated for impairment	$ 5,269	$ 4,315	$ —	$ 801	$ 7,567	$ —	$ —	$ 17,952
Ending balance: collectively evaluated for impairment	338,699	130,563	494,667	307,242	177,451	39,965	19,129	1,507,716
Total	$ 343,968	$ 134,878	$ 494,667	$ 308,043	$ 185,018	$ 39,965	$ 19,129	$ 1,525,668

Loans are considered impaired when current information and events indicate all amounts due may not be collectable according to the contractual terms of the related loan agreements. Impaired loans are identified by applying normal loan review procedures in accordance with the allowance for credit losses methodology. Management periodically assesses loans to determine whether impairment exists. Any loan that is, or will potentially be, no longer performing in accordance with the terms of the original loan contract is evaluated to determine impairment.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The following information relates to impaired loans as of and for the nine months ended September 30, 2023 and 2022 and as of and for the year ended December 31, 2022:

As of and For the Nine Months Ended September 30, 2023	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on a Cash Basis
	(in thousands)						
Mortgage loans:							
1-4 Family residential	$ 2,517	$ 2,081	$ 449	$ 2,530	$ 71	$ 6,478	$ 40
Multifamily residential	—	—	—	—	—	958	—
Nonresidential properties	—	—	—	—	—	531	—
Construction and land	6,650	6,657	—	6,657	—	8,438	—
Nonmortgage loans:							
Business	209	—	209	209	204	83	—
Consumer	—	—	—	—	—	—	—
Total	$ 9,376	$ 8,738	$ 658	$ 9,396	$ 275	$ 16,488	$ 40

As of and For the Nine Months Ended September 30, 2022	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on a Cash Basis
	(in thousands)						
Mortgage loans:							
1-4 Family residential	$ 13,100	$ 11,015	$ 1,777	$ 12,792	$ 168	$ 11,440	$ 164
Multifamily residential	—	—	—	—	—	789	—
Nonresidential properties	1,630	1,239	348	1,587	37	2,268	38
Construction and land	10,660	10,660	—	10,660	—	5,147	16
Nonmortgage loans:							
Business	359	359	—	359	—	93	—
Consumer	—	—	—	—	—	24	—
Total	$ 25,749	$ 23,273	$ 2,125	$ 25,398	$ 205	$ 19,761	$ 218

As of and for the Year Ended December 31, 2022	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized on a Cash Basis
	(in thousands)						
Mortgage loans:							
1-4 Family residential	$ 9,986	$ 7,827	$ 1,757	$ 9,584	$ 159	$ 11,072	$ 307
Multifamily residential	—	—	—	—	—	630	—
Nonresidential properties	843	457	344	801	37	1,930	30
Construction and land	7,567	7,567	—	7,567	—	6,408	—
Nonmortgage loans:							
Business	—	—	—	—	—	3	—
Consumer	—	—	—	—	—	—	—
Total	$ 18,396	$ 15,851	$ 2,101	$ 17,952	$ 196	$ 20,043	$ 337

The Company adopted Accounting Standards Update ("ASU") 2022-02 on January 1, 2023. Since adoption, the Company has not modified any loans with borrowers experiencing financial difficulty. These modifications may include a reduction in interest rate, an extension in term, principal forgiveness and/or other than insignificant payment delay. At September 30, 2023, there were no loans with modifications to borrowers experiencing financial difficulty.

Prior to the adoption of ASU 2022-02 on January 1, 2023, the Company classified certain loans as troubled debt restructuring ("TDR") loans when credit terms to a borrower in financial difficulty were modified, in accordance with ASC 310-40. With the adoption of ASU

2022-02 as of January 1, 2023, the Company has ceased to recognize or measure for new TDRs but those existing at December 31, 2022 will remain until settled.

During the year ended December 31, 2022, there were no loans restructured as a troubled debt restructuring.

At September 30, 2023 and December 31, 2022, there were 21and 23 troubled debt restructured loans totaling $5.9 million and $6.6 million of which $5.2 million and $4.2 million are on accrual status, respectively. There were no commitments to lend additional funds to borrowers whose loans have been modified in a troubled debt restructuring. The financial impact from the concessions made represents specific impairment reserves on these loans, which aggregated to $0.2 million December 31, 2022.

Write-off and write-down of Microloans

In 2020, the Company entered into a business arrangement with the FinTech startup company Grain. Grain’s product is a mobile application geared to the underbanked, minorities and new generations entering the financial services market. In employing this mobile application, the Bank uses non-traditional underwriting methodologies to provide revolving credit to borrowers who otherwise may gravitate to using alternative non-bank lenders. Under the terms of its agreement with Grain, the Bank is the lender for Grain-originated microloans with credit lines currently up to $1,500 and, where applicable, the depository for related security deposits. Grain originates and services these microloans and is responsible for maintaining compliance with the Bank's origination and servicing standards, as well as applicable regulatory and legal requirements. If a microloan is found to be fraudulent, becomes 90 days delinquent upon 90 days of origination or defaults due to a failure of Grain to properly service the microloan, the Bank’s applicable standards for origination or servicing are deemed to have not been complied with and the microloan is put back to Grain, who then becomes responsible for the microloan and any related losses. The microloans put back to Grain are accounted for as an “other asset,” specifically referred to herein as the “Grain Receivable.” At December 31, 2022, the Bank had 27,886 Grain microloans outstanding, net of put backs, with an aggregate balance totaling $18.2 million and which were performing, in management's opinion, comparably to similar portfolios, offset by a $15.4 million allowance for loan losses, resulting in $2.8 million in Grain microloans, net of allowance for loan losses.

Grain has been victimized by cyber fraud using synthetic and other forms of fraudulent identifications, a phenomenon that has become prevalent with Fintechs. Grain remains a pre-profit startup highly dependent on earnings from its relationship with the Bank, a new relationship with another financial institution, and further capital raises which may not materialize.

The Company continues to closely monitor its portfolio of consumer loans originated by Grain as well as Grain’s refinement of solutions for detecting and preventing cyber fraud in the application for microloans. The Company has requested, and Grain has agreed, that no new microloans be originated until further notice and that further extensions of credit to an existing microloan borrower only be made upon confirmation that such borrower is not fraudulent. Further, like other start-up companies, there is a higher level of risk that Grain may not be able to execute its business plan and may fail. In the event Grain were to cease operations, and although it has considered contingency plans, the Bank may have greater difficulty in servicing and collecting the microloan portfolio. In such a case, the level the Bank has provided for in its allowance for credit losses for its microloan portfolio may be inadequate and it may need to increase its provision for credit losses, which could materially decrease the Company’s net income. As a consequence of such events, the Bank may determine it appropriate to terminate its relationship with Grain.

At September 30, 2023, the Bank had 16,687 Grain microloans outstanding, net of put backs, with an aggregate balance totaling $9.3 million and which were performing, in management’s opinion, comparably to similar portfolios, offset by an $8.1 million allowance for credit losses, resulting in $1.2 million in Grain microloans. Since the beginning of the Bank’s agreement with Grain and through September 30, 2023, 45,322 microloans amounting to $24.3 million have been deemed to be fraudulent and put back to Grain. The Company has written-down a total of $15.6 million, net of recoveries, of the Grain Receivable and received $6.8 million in cash from Grain and through the application of security deposits connected to fraudulent loan accounts. The Bank also opted to use the $1.8 million grant it received from the U.S. Treasury Department’s Rapid Response Program to defray the Grain Receivable. The application of those amounts resulted in no net receivable. Additionally, the Company wrote-off its equity investment in Grain of $1.0 million during the year ended December 31, 2022. As of September 30, 2023, the Company’s total exposure to Grain was $1.2 million of the remaining microloans, net of allowance for credit losses, excluding $2.4 million of unused commitments available to Grain borrowers and $1.6 million of security deposits by Grain borrowers. The $1.3 million of recoveries for the nine months ended September 30, 2023 and the $18.5 million write-off for the nine months ended September 30, 2022 related to Grain is included in non-interest expense in the accompanying Consolidated Statements of Operations. Of the $1.3 million of recoveries for the nine months ended September 30, 2023, $0.7 million were payments received from Grain on the Grain Receivable and the remainder were payments from Grain borrowers.

Grain Technology, Inc. ("Grain") Total Exposure as of September 30, 2023
(in thousands)

Receivable from Grain		
Microloans originated - put back to Grain (inception-to-September 30, 2023)	$	24,255
Write-downs, net of recoveries (inception-to-date as of September 30, 2023)		(15,610)
Cash receipts from Grain (inception-to-September 30, 2023)		(6,819)
Grant/reserve (inception-to-September 30, 2023)		(1,826)
Net receivable as of September 30, 2023	$	—
Microloan receivables from Grain borrowers		
Grain originated loans receivable as of September 30, 2023	$	9,318
Allowance for credit losses as of September 30, 2023 (1)		(8,163)
Microloans, net of allowance for credit losses as of September 30, 2023	$	1,155
Investments		
Investment in Grain	$	1,000
Investment in Grain write-off		(1,000)
Investment in Grain as of September 30, 2023	$	—
Total exposure to Grain as of September 30, 2023	$	1,155

(1) Includes $0.3 million for allowance for unused commitments on the $2.4 million of unused commitments available to Grain borrowers reported in other liabilities in the accompanying Consolidated Statements of Financial Conditions. Excludes $1.6 million of security deposits by Grain originated borrowers reported in deposits in the accompanying Consolidated Statements of Financial Conditions.

Off-Balance Sheet Credit Losses

Also included within the scope of the CECL standard are off-balance sheet loan commitments, which includes the unfunded portion of committed lines of credit and construction loans.

The Company estimates expected credit losses over the contractual period in which the company is exposed to credit risk through a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet exposures is adjusted as a provision for credit loss expense. The Company uses similar assumptions and risk factors that are developed for collectively evaluated financing receivables. This estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments to be funded over its estimated life.

At September 30, 2023, the allowance for off-balance sheet credit losses was $3.2 million, which is included in the "Other liabilities" on the Consolidated Statements of Financial Condition. During the nine months ended September 30, 2023, the Company had $1.9 million in credit loss provision for off-balance-sheet items, which are included in "Provision for contingencies" on the Consolidated Statements of Income.

The following table presents the activity in the allowance for off-balance-sheet credit losses:

	September 30, 2023		December 31, 2022	
Balance at beginning of period	$	354	$	229
Impact on CECL adoption		948		—
Provision		1,893		125
Allowance for credit losses	$	3,195	$	354

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6. Premises and Equipment

Premises and equipment at September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023	December 31, 2022
	(in thousands)	
Land	$ 932	$ 932
Buildings and improvements	4,717	4,717
Leasehold improvements	15,973	15,808
Furniture, fixtures and equipment	8,702	8,497
	30,324	29,954
Less: accumulated depreciation and amortization	(13,871)	(12,508)
Total premises and equipment	$ 16,453	$ 17,446

Depreciation and amortization expense amounted to $0.4 million both for the three months ended September 30, 2023 and 2022 and $1.4 million both for the nine months ended September 30, 2023 and 2022, respectively, and are included in occupancy and equipment in the accompanying consolidated statements of operations.

Note 7. Leases

Effective January 1, 2022, the Company adopted the provisions of Topic 842 using the prospective transition approach. Therefore, prior period comparative information has not been adjusted and continues to be reported under GAAP in effect prior to the adoption of Topic 842.

The Company has 16 operating leases for branches (including headquarters) and office spaces and five operating leases for equipment. Our leases have remaining lease terms ranging from less than one year to approximately 15 years, none of which has a renewal option reasonably certain of exercise, which has been reflected in the Company's calculation of lease term.

Certain leases have escalation clauses for operating expenses and real estate taxes. The Company's non-cancelable operating lease agreements expire through 2038.

Supplemental balance sheet information related to leases was as follows:

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Operating lease ROU assets	$ 32,110	$ 33,423
Operating lease liabilities	33,459	34,532
Weighted-average remaining lease term-operating leases	12.8 years	13.5 years
Weighted average discount rate-operating leases	4.9%	4.9%

The components of lease expense and cash flow information related to leases were as follows:

		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2023	2022	2023	2022
		(Dollars in thousands)			
Lease Cost					
Operating lease cost	Occupancy and equipment	$ 1,029	$ 1,042	$ 3,123	$ 3,100
Operating lease cost	Other operating expenses	4	1	14	2
Short-term lease cost	Other operating expenses	5	—	15	6
Variable lease cost	Occupancy and equipment	32	35	94	122
Total lease cost		$ 1,070	$ 1,078	$ 3,246	$ 3,230

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The Company's minimum annual rental payments under the terms of the leases are as follows at September 30, 2023:

Years ended December 31:	Minimum Rental (in thousands)
Remainder of 2023	$ 961
2024	3,866
2025	3,818
2026	3,668
2027	3,537
2028	3,594
Thereafter	25,474
Total Minimum payments required	44,918
Less: implied interest	11,459
Present value of lease liabilities	$ 33,459

Lease Commitments: As of September 30, 2023, there are noncancelable operating leases for office space that expire on various dates through 2038. Certain of these leases contains escalation clauses providing for increased rental based on pre-scheduled annual increases or on increases in real estate taxes.

Note 8. Deposits

Deposits at September 30, 2023 and December 31, 2022 are summarized as follows:

	September 30, 2023	December 31, 2022
	(in thousands)	
Demand	$ 265,862	$ 289,149
Interest-bearing deposits:		
NOW/IOLA accounts	22,519	24,349
Money market accounts (1)	370,500	236,143
Reciprocal deposits	82,670	114,049
Savings accounts	117,870	130,432
Total NOW, money market, reciprocal and savings	593,559	504,973
Certificates of deposit of $250K or more (1)	122,353	106,336
Brokered certificates of deposits (2)	98,729	98,754
Listing service deposits (2)	15,180	35,813
Certificates of deposit less than $250K (1)	305,449	217,387
Total certificates of deposit	541,711	458,290
Total interest-bearing deposits	1,135,270	963,263
Total deposits	$ 1,401,132	$ 1,252,412

(1)As of December 31, 2022, $81.7 million of SaveBetter deposits were reclassified from money market accounts to certificates of deposits. $36.2 million were reclassified to Certificates of deposits of $250K or more and $45.5 million were reclassified to certificates of deposit less than $250K.

(2)As of September 30, 2023 and December 31, 2022, there were $0.3 million and $13.6 million, respectively, in individual listing service deposits amounting to $250,000 or more. All brokered certificates of deposit individually amounted to less than $250,000.

At September 30, 2023 scheduled maturities of certificates of deposit were as follows:

	(in thousands)
2023	$ 203,736
2024	194,609
2025	51,183
2026	42,372
2027	48,257
Thereafter	1,554
	$ 541,711

Overdrawn deposit accounts that have been reclassified to loans amounted to $0.1 million as of both September 30, 2023 and December 31, 2022.

Note 9. Borrowings

The Bank had outstanding term advances from the FHLBNY and the FRBNY at September 30, 2023 and outstanding term advances from the FHLBNY at December 31, 2022, respectively.

FHLBNY Advances: As a member of the FHLBNY, the Bank has the ability to borrow from the FHLBNY based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLBNY Statement of Credit Policy, at the time of the borrowing. In accordance with an agreement with the FHLBNY, the qualified collateral must be free and clear of liens, pledges and encumbrances.

The Bank had $371.1 million and $511.4 million of outstanding term advances from the FHLBNY at September 30, 2023 and December 31, 2022, respectively and $6.0 million of overnight line of credit advance from the FHLBNY at December 31, 2022. The Bank had no overnight line of credit advance from the FHLBNY at September 30, 2023. The Bank also had a guarantee from the FHLBNY through letters of credit of up to $1.0 million at September 30, 2023 and $21.5 million at December 31, 2022.

As of September 30, 2023 and December 31, 2022, the Bank had eligible collateral of approximately $853.6 million and $478.8 million, respectively, in residential 1-4 family and multifamily mortgage loans available to secure advances from the FHLBNY.

FRBNY Advances: The Bank also has additional borrowing capacity under a secured line with the FRBNY secured by 49.4% of our total securities portfolio with amortized cost of $303.8 million at September 30, 2023. The Bank had $304.0 million of outstanding term advances from the FRBNY at September 30, 2023. No amounts were outstanding at December 31, 2022.

Borrowed funds at September 30, 2023 and December 31, 2022 consist of the following and are summarized by maturity and call date below:

	September 30, 2023			December 31, 2022		
	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate
	(Dollars in thousands)					
Overnight line of credit advance	$ —	$ —	— %	$ 6,000	$ 6,000	4.61 %
Term advances ending:						
2023	$ —	$ —	—	$ 178,375	$ 178,375	4.32
2024	354,000	354,000	4.53	50,000	50,000	4.75
2025	50,000	50,000	4.41	50,000	50,000	4.41
2026	—	—	—	—	—	—
2027	212,000	212,000	3.44	183,000	183,000	3.25
Thereafter	59,100	59,100	3.43	50,000	50,000	3.35
	$ 675,100	$ 675,100	4.08 %	$ 517,375	$ 517,375	3.90 %

Interest expense on term advances totaled $7.0 million and $1.5 million for the three months ended September 30, 2023 and 2022 and $17.6 million and $2.5 million for the nine months ended September 30, 2023 and 2022, respectively. There was $0.9 million in interest expense on overnight advances for the nine months ended September 30, 2023. There was no interest expense on overnight advances for the three months ended September 30, 2023. There was $0.3 million in interest expense on overnight advances for the three and nine months ended September 30, 2022.

Note 10. Income Taxes

The provision (benefit) for income taxes for the three and nine months ended September 30, 2023 and 2022 consists of the following:

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
	(in thousands)			
Federal:				
Current	$ 783	$ 2,265	$ 380	$ 370
Deferred	312	(2,750)	344	(4,047)
	1,095	(485)	724	(3,677)
State and local:				
Current	232	274	1,085	847
Deferred	1,818	(2,963)	1,091	(5,487)
	2,050	(2,689)	2,176	(4,640)
Valuation allowance	(1,417)	2,354	(841)	4,061
Provision (benefit) for income taxes	$ 1,728	$ (820)	$ 2,059	$ (4,256)

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% for the three and nine months ended September 30, 2023 and 2022, respectively, to income before income taxes as a result of the following:

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
	(in thousands)			
Income tax, at federal rate	$ 906	$ (3,267)	$ 1,027	$ (5,259)
State and local tax, net of federal taxes	1,619	(2,125)	1,719	(3,666)
Valuation allowance, net of the federal benefit	(1,417)	2,354	(841)	4,061
Other	620	2,218	154	608
	$ 1,728	$ (820)	$ 2,059	$ (4,256)

Management maintains a valuation allowance against its net New York State and New York City deferred tax assets as it is unlikely these deferred tax assets will be utilized to reduce the Company's tax liability in future years. For the nine months ended September 30, 2023 and 2022, the valuation allowance decreased by $0.8 million and increased by $4.1 million, respectively. In 2022, the Company generated large net operating losses in New York State and New York City which in turn increased the 2022 valuation allowance.

Management has determined that it is not required to establish a valuation allowance against any other deferred tax assets since it is more likely than not that the deferred tax assets will be fully utilized in future periods. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods that the temporary differences comprising the deferred tax assets will be deductible.

For federal income tax purposes, a financial institution may carry net operating losses (“NOLs”) to forward tax years indefinitely. The use of NOLs to offset income is limited to 80%. At September 30, 2023, the Bank had a federal NOL carryforward of $6.7 million.

The state and city of New York allow for a three-year carryback period and carryforward period of twenty years on NOLs generated on or after tax year 2015. For tax years prior to 2015, no carryback period is allowed. Ponce De Leon Federal Bank, the predecessor of Ponce Bank, has pre-2015 carryforwards of $0.6 million for New York State purposes and $0.5 million for New York City purposes. Furthermore, there are post-2015 carryforwards available of $58.9 million for New York State purposes and $29.7 million for New York City purposes. Finally, for New Jersey purposes, losses may only be carried forward 20 years, with no allowable carryback period. At September 30, 2023, the Bank had a New Jersey NOL carryforward of $0.1 million.

At September 30, 2023 and December 31, 2022, the Company had no unrecognized tax benefits recorded. The Company does not expect that the total amount of unrecognized tax benefits will significantly increase in the next twelve months.

The Company is subject to U.S. federal income tax, New York State income tax, Connecticut income tax, New Jersey income tax, Florida income tax, Pennsylvania income tax and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2020.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2023 and December 31, 2022 are presented below:

	September 30, 2023	December 31, 2022
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 8,509	$ 11,324
Interest on nonaccrual loans	730	317
Unrealized loss on available-for-sale securities	5,533	4,777
Amortization of intangible assets	16	32
Operating lease liabilities	10,386	11,304
Net operating losses	7,348	9,119
Charitable contribution carryforward	1,647	1,859
Compensation and benefits	1,087	562
Other	2,025	478
Total gross deferred tax assets	37,281	39,772
Deferred tax liabilities:		
Depreciation of premises and equipment	996	1,049
Right of use assets	9,967	10,941
Deferred loan fees	215	671
Other	15	29
Total gross deferred tax liabilities	11,193	12,690
Valuation allowance	10,104	10,945
Net deferred tax assets	$ 15,984	$ 16,137

Note 11. Compensation and Benefit Plans

Ponce Bank Employee Stock Ownership Plan with 401(k) Provisions (the "KSOP"). The KSOP is for eligible employees of Ponce Bank and those of its affiliates. The named executive officers are eligible to participate in the KSOP just like other employees. An employee must attain the age of 21 and will be eligible to participate in the 401(k) features of the KSOP in the quarter following thirty days of service and the Employee Stock Ownership Plan ("ESOP") feature of the KSOP upon the first entry date commencing on or after the eligible employee's completion of one year of service. Employees are eligible to participate in the 401(k) Plan at the beginning of each quarter (January 1, April 1, July 1, or October 1).

401(k) Component:

Under the 401(k) features of the KSOP ("401(k) Component"), a participant may elect to defer, on a pre-tax basis, the maximum amount as permitted by the Internal Revenue Code. For 2023, the salary deferral contribution limit was $22,500; provided, however, that a participant over age 50 may contribute an additional $7,500 to the 401(k) for a total of $30,000. In addition to salary deferral contributions, Ponce Bank may make discretionary matching contributions, discretionary profit-sharing contributions or safe harbor contributions to the 401(k) Component. Discretionary matching contributions are allocated on the basis of salary deferral contributions. Discretionary profit-sharing contributions are based on three classifications set forth in the 401(k) feature (i) Class A — Chairman, President, and Executive Vice Presidents; (ii) Class B — Senior Vice Presidents, Vice Presidents and Assistant Vice Presidents; and (iii) Class C — all other eligible employees. The contribution for a class will be the same percentage of compensation for all participants in that class. If Ponce Bank decides to make a safe harbor contribution for a plan year, each participant will receive a contribution equal to 3% of his or her compensation for the plan year.

A participant is always 100% vested in his or her salary deferral contributions and safe harbor contributions. Discretionary matching and profit-sharing contributions are 20% vested after two years of service, plus an additional 20% for each additional year of service; so all participants are fully vested in such contributions after six years of service. Participants also will become fully vested in his or her account balance in the 401(k) Component automatically upon normal retirement, death or disability, a change in control, or termination of the KSOP. Generally, participants will receive distributions from the KSOP upon separation from service in accordance with the terms of the governing document.

ESOP Component:

On September 29, 2017, in connection with the Bank's reorganization into the mutual holding company form of organization, the ESOP trustee purchased, on behalf of the ESOP, 723,751 shares of PDL Community Bancorp common stock. The ESOP funded its stock purchase with a loan ("First ESOP loan") from PDL Community Bancorp in the amount of $7.2 million, which was equal to the aggregate purchase price of the common stock. The First ESOP loan is being repaid principally through Ponce Bank's contributions to the ESOP over the 15-year term of such loan. The interest rate for the First ESOP loan is 2.60%.

On January 27, 2022, concurrent with the completion of the conversion and reorganization of Ponce Bank Mutual Holding Company from a mutual form to a stock form of organization and the merger of PDL Community Bancorp with and into Ponce Financial Group, Inc., the shares of PDL Community Bancorp common stock held by the KSOP were converted into 977,880 shares of Ponce Financial Group, Inc. common stock.

On January 27, 2022, the KSOP trustee purchased, on behalf of the ESOP feature of the KSOP ("ESOP Component"), an additional 1,097,353 shares of Ponce Financial Group, Inc. common stock, or 4.44% of the total number of shares of Ponce Financial Group, Inc. common stock outstanding on January 27, 2022 (including shares issued to the Foundation). The KSOP funded this stock purchase with a loan ("Second ESOP loan") from Ponce Financial Group, Inc. in the amount of $11.0 million, which was equal to the aggregate purchase price of the common stock. The Second ESOP loan is being repaid principally through Ponce Bank's contributions to the ESOP Component over the 15-year term of such loan. The interest rate for the Second ESOP loan is 1.82%.

The trustee of the trust funding the KSOP holds the shares of Ponce Financial Group, Inc. common stock purchased by the KSOP in an unallocated suspense account, and shares will be released from the suspense account on a pro-rata basis as the loans are repaid. The trustee will allocate the shares released among participants on the basis of each participant's proportional share of qualifying compensation relative to all participants participating in the ESOP Component. A participant will become 100% vested in his or her account balance in the ESOP Component after three years of service. In addition, participants will become fully vested in his or her account balance in the ESOP Component automatically upon normal retirement, death or disability, a change in control, or termination of the KSOP. Generally, participants will receive distributions from the KSOP upon separation from service in accordance with the terms of the plan document. The KSOP reallocates any unvested shares of Ponce Financial Group, Inc. common stock forfeited upon termination of employment among the remaining participants in the ESOP Component.

Contributions to the ESOP are to be sufficient to pay principal and interest currently due under the loan agreement. Under applicable accounting requirements, Ponce Bank will record a compensation expense for the ESOP at the average market price of the shares as they are committed to be released from the unallocated suspense account to participants' accounts, which may be more or less than the original issue price. The compensation expense resulting from the release of the common stock from the suspense account and allocation to plan participants will result in a corresponding reduction in the earnings of Ponce Financial Group, Inc. The ESOP shares become outstanding for earnings per share computations (see Note 12). As of September 30, 2023, the combined outstanding balance of both the First ESOP loan and Second ESOP loan was $13.3 million.

A summary of the ESOP shares as of September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Shares committed-to-be released	100,308	133,744
Shares allocated to participants	448,746	354,227
Unallocated shares	1,469,167	1,569,475
Total	2,018,221	2,057,446
Fair value of unallocated shares	$ 11,489	$ 14,628

The Company recognized ESOP related compensation expense, including ESOP equalization expense, of $0.3 million and $0.3 million for the three months ended September 30, 2023 and 2022, and $0.9 million and $1.0 million for the nine months ended September 30, 2023 and 2022, respectively.

Supplemental Executive Retirement Plan:

The Bank maintains a non-qualified supplemental executive retirement plan ("SERP") for the benefit of two key executive officers. The SERP expense recognized for the three months ended September 30, 2023 and 2022 was $0.02 million each and for the nine months ended September 30, 2023 and 2022 was $0.05 million each.

2018 Incentive Plan

The Company's stockholders approved the PDL Community Bancorp 2018 Long-Term Incentive Plan (the "2018 Incentive Plan") at the Special Meeting of Stockholders on October 30, 2018. The maximum number of shares of common stock which can be issued under the 2018 Incentive Plan is 1,248,469. Of the 1,248,469 shares, the maximum number of shares that may be awarded under the 2018 Incentive Plan pursuant to the exercise of stock options or stock appreciation rights ("SARs") is 891,764 shares (all of which may be granted as incentive stock options), and the number of shares of common stock that may be issued as restricted stock awards or restricted stock units is 356,705 shares. However, the 2018 Incentive Plan contains a flex feature that provides that awards of restricted stock and restricted stock units in excess of the 356,705 share limitation may be granted but each share of stock covered by such excess award shall reduce the 891,764 share limitation for awards of stock options and SARs by 3.0 shares of common stock. The Company converted 462,522 awards of stock options into 154,174 restricted stock units in 2018, 45,000 awards of stock options into 15,000 restricted stock units in 2020 and 191,145 awards of stock options into 63,715 restricted stock units in 2022.

Under the 2018 Incentive Plan, the Company made grants equal to 674,645 shares on December 4, 2018 which include 119,176 incentive options to executive officers, 44,590 non-qualified options to outside directors, 322,254 restricted stock units to executive officers, 40,000 restricted stock units to non-executive officers and 148,625 restricted stock units to outside directors. During the year ended December 31, 2020, the Company awarded 40,000 incentive options and 15,000 restricted stock units to non-executive officers under the 2018 Incentive Plan. Awards to directors generally vest 20% annually beginning with the first anniversary of the date of grant. Awards to a director with fewer than five years of service at the time of grant vest over a longer period and will not become fully vested until the director has completed ten years of service. Awards to the executive officer who is not a director vest 20% annually beginning on December 4, 2020. On April 1, 2022, the Company awarded 23,718 incentive options to an executive officer, 30,659 incentive options to non-executive officers and 13,952 non-qualified options to an outside director. In addition, on April 1, 2022 the Company awarded 40,460 restricted stock units to executive officers and 23,255 restricted stock units to outside directors. As of September 30, 2023 and December 31, 2022, the maximum number of stock options and SARs remaining to be awarded under the Incentive Plan for both periods was 4,883, after the conversion from PDL Community Bancorp common stock to Ponce Financial Group, Inc. common stock. As of September 30, 2023 and December 31, 2022, the maximum number of shares of common stock that may be issued as restricted stock or restricted stock units remaining to be awarded under the Incentive Plan was none, for both periods.

The product of the number of units granted and the grant date market price of the Company's common stock determine the fair value of restricted stock units under the Company's 2018 Incentive Plan. The Company recognizes compensation expense for the fair value of restricted stock units on a straight-line basis over the requisite service period for the entire award.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

A summary of the Company's restricted stock unit awards activity and related information for nine months ended September 30, 2023 and year ended December 31, 2022 are as follows:

	September 30, 2023	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested, beginning of year	245,840	$ 9.40
Granted	—	—
Vested	(4,147)	9.27
Forfeited	—	—
Non-vested at March 31	241,693	$ 9.40
Granted	—	—
Vested	(21,235)	10.44
Forfeited	(697)	9.15
Non-vested at June 30	219,761	$ 9.30
Granted	—	—
Vested	(4,186)	7.20
Forfeited	—	—
Non-vested at September 30	215,575	$ 9.34

	December 31, 2022	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested, beginning of year	237,687	$ 12.65
Conversion and reorganization	93,933	—
Granted	63,715	10.44
Vested	(149,495)	9.11
Forfeited	—	—
Non-vested at December 31	245,840	$ 9.40

Compensation expense related to restricted stock units was $0.4 million each for the three months ended September 30, 2023 and 2022 and was $1.1 million and $1.0 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, the total remaining unrecognized compensation cost related to restricted stock units was $1.0 million, which is expected to be recognized over the next 17 quarters.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

A summary of the Company's stock option awards activity and related information for nine months ended September 30, 2023 and year ended December 31, 2022 are as follows:

	September 30, 2023		
	Options		Weighted-Average Exercise Price Per Share
Outstanding, beginning of year	352,621	$	8.97
Granted	—		—
Exercised	—		—
Forfeited	—		—
Outstanding at March 31 (1)	352,621		8.97
Granted	—		—
Exercised	—		—
Forfeited	—		—
Outstanding at June 30	352,621		8.97
Granted	—		—
Exercised	—		—
Forfeited	—		—
Outstanding at September 30 (1)	352,621	$	8.97
Exercisable at September 30 (1)	218,433	$	8.82

	December 31, 2022		
	Options		Weighted-Average Exercise Price Per Share
Outstanding, beginning of year	203,766	$	12.02
Conversion and reorganization	80,526	$	—
Granted	68,329		10.44
Exercised	—		—
Forfeited	—		—
Outstanding at December 31 (1)	352,621	$	8.97
Exercisable at December 31 (1)	190,508	$	8.83

(1)The aggregate intrinsic value, which represents the difference between the price of the Company's common stock at respective periods and the stated exercise price of the underlying options, was $0 for outstanding options and $0 for exercisable options at September 30, 2023 and was $0.1 million for outstanding options and $0.1 million for exercisable options December 31, 2022.

The weighted-average exercise price for the options as of September 30, 2023 was $8.97 per share and the weighted average remaining contractual life is 5.9 years. The weighted average period over which compensation expenses are expected to be recognized is 2.9 years. There were 218,433 shares and 190,508 shares exercisable as of September 30, 2023 and December 31, 2022, respectively. Total compensation cost related to stock options recognized was $0.05 million both for the three months ended September 30, 2023 and 2022, and $0.1 million both for the nine months ended September 30, 2023 and 2022. As of September 30, 2023, the total remaining unrecognized compensation cost related to unvested stock options was $0.3 million, which is expected to be recognized over the next 17 quarters.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The fair value of each option grant is estimated on the date of grant using Black-Scholes option pricing model with the following weighted average assumptions:

	For the Nine Months Ended September 30,	
	2023	2022
Dividend yield	N/A	0.00 %
Expected life	N/A	6.5 years
Expected volatility	N/A	41.34 %
Risk-free interest rate	N/A	2.65 %
Weighted average grant date fair value	N/A	$ 3.85

The expected volatility is based on the Company's historical volatility. The expected life is an estimate based on management's review of the various factors and calculated using the simplified method for plain vanilla options. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

2023 Long-Term Incentive Plan

The Company's stockholders approved the 2023 Long-Term Incentive Plan (the "Plan") at the Special Meeting of Stockholders on June 15, 2023. The maximum number of shares of common stock which can be issued under the Plan is 1,920,368. Of the 1,920,368 shares, the maximum number of shares that may be awarded under the Plan pursuant to the exercise of stock options or stock appreciation rights ("SARs") is 1,371,691 shares (all of which may be granted as incentive stock options), and the number of shares of common stock that may be issued as restricted stock awards or restricted stock units is 548,677 shares. There have been no grants of stock options and restricted stock awards or restricted stock units under the 2023 Long-Term Incentive Plan.

Treasury Stock:

The Company adopted a share repurchase program effective May 16, 2023 which was completed in August of 2023. Under the repurchase program, the Company was authorized to repurchase up to 1,235,000 shares of the Company's stock or approximately 5% of the Company's then current issued and outstanding shares. During the nine months ended September 30, 2023, the Company repurchased a total of 1,235,000 shares of the Company's common stock. As of September 30, 2023 and December 31, 2022, 1,233,111 shares and 1,976 shares, respectively, were held as treasury stock as a result of share buy-backs and restricted stock units vested during 2023 and restricted stock units vested during 2022, respectively.

Note 12. Earnings Per Share

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands except share data)			
Net income (loss)	$ 2,590	$ (14,738)	$ 2,834	$ (20,787)
Common shares outstanding for basic EPS:				
Weighted average common shares outstanding	23,774,317	24,727,459	24,456,108	24,072,543
Less: Weighted average unallocated Employee Stock Ownership Plan (ESOP) shares	1,502,241	1,632,600	1,535,428	1,548,066
Basic weighted average common shares outstanding	22,272,076	23,094,859	22,920,680	22,524,477
Basic earnings (loss) per common share	$ 0.12	$ (0.64)	$ 0.12	$ (0.92)
Potential dilutive common shares:				
Add: Dilutive effect of restricted stock awards and stock options	77,141	—	42,276	—
Diluted weighted average common shares outstanding	22,349,217	23,094,859	22,962,956	22,524,477
Diluted earnings (loss) per common share	$ 0.12	$ (0.64)	$ 0.12	$ (0.92)

Note 13. Commitments, Contingencies and Credit Risk

Financial Instruments With Off-Balance-Sheet Risk: In the normal course of business, financial instruments with off-balance-sheet risk may be used to meet the financing needs of customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on the Consolidated Statements of Financial Condition. The contractual amounts of these instruments reflect the extent of involvement in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The same credit policies are used in making commitments and contractual obligations as for on-balance-sheet instruments. Financial instruments whose contractual amounts represent credit risk at September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
	(in thousands)	
Commitments to grant mortgage loans	$ 445,152	$ 207,105
Commitments to sell loans at lock-in rates	—	1,676
Unfunded commitments under lines of credit	62,114	72,530
	$ 507,266	$ 281,311

Commitments to Grant Mortgage Loans: Commitments to grant mortgage loans are agreements to lend to a customer as long as all terms and conditions are met as established in the contract. Commitments generally have fixed expiration dates or other termination clauses, and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. Material losses are not anticipated as a result of these transactions.

Commitments to Sell Loans at Lock-in Rates: In order to assure itself of a marketplace to sell its loans, Mortgage World has agreements with investors who will commit to purchase loans at locked-in rates. Mortgage World has off-balance sheet market risk to the extent that Mortgage World does not obtain matching commitments from these investors to purchase the loans. This will expose Mortgage World to the lower of cost or market valuation environment.

Repurchases, Indemnifications and Premium Recaptures: Loans sold by Mortgage World under investor programs are subject to repurchase or indemnification if they fail to meet the origination criteria of those programs. In addition, loans sold to investors are also subject to repurchase or indemnifications if the loan is two or three months delinquent during a set period which usually varies from six months to a year after the loan is sold. There are no open repurchase or indemnification requests for loans sold as a correspondent lender or where the Company acted as a broker in the transaction as of September 30, 2023.

Unfunded Commitments Under Lines of Credit: Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extension of credit to existing customers. These lines of credit are uncollateralized and usually contain a specified maturity date and, ultimately, may not be drawn upon to the total extent to which the Company is committed.

Unfunded Commitments with Bamboo: On October 1, 2022, the Company entered into a Membership Interest Purchase Agreement with Bamboo Payment Holding LLC ("Bamboo"). Under the agreement, the Company purchased from Bamboo 180 Membership Interest Units representing an aggregate amount equal to up to 18% of total issued and outstanding Membership Interest in Bamboo for a purchase price of $2.5 million. During the first nine months of 2023, the Company made three additional contributions for a total of $1.0 million for a total investment in Bamboo of $3.5 million and is committed to make an additional payment of $0.2 million in November of 2023. With over a decade processing payments in Latin America, Bamboo has a diverse network connects Latin American local payment processing to global companies as well as domestic solutions to locally based organizations.

Unfunded Commitments with Oaktree: In December of 2021, the Bank committed to invest $5.0 million in Oaktree SBIC Fund, L.P. ("Oaktree"). As of September 30, 2023 and December 31, 2022, the total unfunded commitment was $2.4 million and $2.8 million, respectively.

Unfunded Commitments with Silvergate: In April of 2022, the Company committed to invest $5.0 million in EJF Silvergate Ventures Fund LP ("Silvergate"). As of September 30, 2023 and December 31, 2022, the total unfunded commitment was $2.6 million and $3.3 million, respectively.

Letters of Credit: Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Letters of credit are largely cash secured.

Concentration by Geographic Location: Loans, commitments to extend credit and letters of credit have been granted to customers who are located primarily in the New York City metropolitan area. Generally, such loans most often are secured by one-to-four family residential properties. The loans are expected to be repaid from the borrowers' cash flows.

Legal Matters: The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

Note 14. Fair Value

The following fair value hierarchy is used based on the lowest level of input significant to the fair value measurement. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Cash and Cash Equivalents, Placements with Banks, Accrued Interest Receivable, Advance Payments by Borrowers for Taxes and Insurance, and Accrued Interest Payable: The carrying amount is a reasonable estimate of fair value. These assets and liabilities are not recorded at fair value on a recurring basis.

Available-for-Sale Securities: These financial instruments are recorded at fair value in the consolidated financial statements on a recurring basis. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (e.g., matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities. Level 3 securities are securities for which significant unobservable inputs are utilized. There were no changes in valuation techniques used to measure similar assets during the period.

FHLBNY Stock: The carrying value of FHLBNY stock approximates fair value since the Bank can redeem such stock with FHLBNY at cost. As a member of the FHLBNY, the Company is required to purchase this stock, which is carried at cost and classified as restricted equity securities.

Loans Receivable: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. Impaired loans are valued using a present value discounted cash flow method, or the fair value of the collateral. Loans are not recorded at fair value on a recurring basis.

Loans Held for Sale: Loans held for sale, at fair value, consists of loans originated for sale by the Bank and accounted for under the fair value option. These assets are valued using stated investor pricing for substantially equivalent loans as Level 2. In determining fair value, such measurements are derived based on observable market data, including whole-loan transaction pricing and similar market transactions adjusted for portfolio composition, servicing value and market conditions. Loans held for sale by the Bank are carried at the lower of cost or fair value as determined by investor bid prices.

Under the fair value option, management has elected, on an instrument-by-instrument basis, fair value for substantially all forms of mortgage loans originated for sale on a recurring basis. The fair value carrying amount of mortgages held for sale measured under the fair value option was $14.1 million and the aggregate unpaid principal amounted to $14.0 million.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Other Real Estate Owned: Other real estate owned represents real estate acquired through foreclosure, and is recorded at fair value less estimated disposal costs on a nonrecurring basis. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the asset is classified as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the asset is classified as Level 3.

Deposits: The fair values of demand deposits, savings, NOW and money market accounts equal their carrying amounts, which represent the amounts payable on demand at the reporting date. Fair values for fixed-term, fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on certificates of deposit to a schedule of aggregated expected monthly maturities on such deposits. Deposits are not recorded at fair value on a recurring basis.

FHLBNY Advances: The fair value of the advances is estimated using a discounted cash flow calculation that applies current market-based FHLBNY interest rates for advances of similar maturity to a schedule of maturities of such advances. These borrowings are not recorded at fair value on a recurring basis.

Warehouse Lines of Credit: The carrying amounts of warehouse lines of credit and mortgage loan funding payable approximate fair value and due to their short-term nature are classified as Level 2. One of the warehouse lines of credit was terminated on March 31, 2022 and one was terminated on February 7, 2023

Off-Balance-Sheet Instruments: Fair values for off-balance-sheet instruments (lending commitments and standby letters of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Off-balance-sheet instruments are not recorded at fair value on a recurring basis.

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022, and indicate the level within the fair value hierarchy utilized to determine the fair value:

	September 30, 2023			
Description	Total	Level 1	Level 2	Level 3
	(in thousands)			
Available-for-Sale Securities, at fair value:				
U.S. Government Bonds	$ 2,713	$ 2,713	$ —	$ —
Corporate bonds	23,190	729	22,461	—
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations	32,989	—	32,989	—
FHLMC Certificates	8,537	—	8,537	—
FNMA Certificates	49,219	—	49,219	—
GNMA Certificates	105	—	105	—
Mortgage Loans Held for Sale, at fair value	14,103	—	14,103	—
	$ 130,856	$ 3,442	$ 127,414	$ —

	December 31, 2022			
Description	Total	Level 1	Level 2	Level 3
	(in thousands)			
Available-for-Sale Securities, at fair value:				
U.S. Government Bonds	$ 2,689	$ 2,689	$ —	$ —
Corporate bonds	23,359	730	22,629	—
Mortgage-Backed Securities:				
Collateralized Mortgage Obligations	37,777	—	37,777	—
FHLMC Certificates	9,634	—	9,634	—
FNMA Certificates	55,928	—	55,928	—
GNMA Certificates	118	—	118	—
Mortgage Loans Held for Sale, at fair value	1,979	—	1,979	—
Derivatives from interest rate lock commitments	22	—	—	22
	$ 131,506	$ 3,419	$ 128,065	$ 22

Management’s assessment and classification of an investment within a level can change over time based upon maturity or liquidity of the investment and would be reflected at the beginning of the quarter in which the change occurred.

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The following tables detail the assets carried at fair value and measured at fair value on a nonrecurring basis as of September 30, 2023 and December 31, 2022 and indicate the fair value hierarchy utilized to determine the fair value:

	September 30, 2023			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Impaired loans	$ 9,396	$ —	$ —	$ 9,396

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Impaired loans	$ 17,952	$ —	$ —	$ 17,952

Losses on assets carried at fair value on a nonrecurring basis were *de minimis* for the three and nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023 and December 31, 2022, the carrying values and estimated fair values of the Company's financial instruments were as follows:

	Carrying Amount	Fair Value Measurements			
		Level 1	Level 2	Level 3	Total
	(in thousands)				
September 30, 2023					
Financial assets:					
Cash and cash equivalents	$ 117,012	$ 117,012	$ —	$ —	$ 117,012
Available-for-sale securities, at fair value	116,753	3,442	113,311	—	116,753
Held-to-maturity securities, at amortized cost, net	471,065	—	444,864	—	444,864
Placements with banks	996	—	996	—	996
Loans held for sale, at fair value	14,103	—	14,103	—	14,103
Loans receivable, net	1,787,607	—	—	1,720,035	1,720,035
Accrued interest receivable	16,624	—	16,624	—	16,624
FHLBNY stock	18,870	18,870	—	—	18,870
Financial liabilities:					
Deposits:					
Demand deposits	265,862	265,862	—	—	265,862
Interest-bearing deposits	593,559	593,559	—	—	593,559
Certificates of deposit	541,711	—	529,450	—	529,450
Advance payments by borrowers for taxes and insurance	13,743	—	13,743	—	13,743
Borrowings	675,100	—	654,847	—	654,847
Accrued interest payable	8,385	—	8,385	—	8,385

	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3	Total
			(in thousands)		
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 54,360	$ 54,360	$ —	$ —	$ 54,360
Available-for-sale securities, at fair value	129,505	3,419	126,086	—	129,505
Held-to-maturity securities, at amortized cost	510,820	—	495,851	—	495,851
Placements with banks	1,494	—	1,494	—	1,494
Loans held for sale, at fair value	1,979	—	1,979	—	1,979
Loans receivable, net	1,493,127	—	—	1,430,864	1,430,864
Accrued interest receivable	15,049	—	15,049	—	15,049
FHLBNY stock	24,661	24,661	—	—	24,661
Financial liabilities:					
Deposits:					
Demand deposits	289,149	289,149	—	—	289,149
Interest-bearing deposits	504,973	504,973	—	—	504,973
Certificates of deposit	458,290	—	450,224	—	450,224
Advance payments by borrowers for taxes and insurance	9,724	—	9,724	—	9,724
Borrowings	517,375	—	503,406	—	503,406
Accrued interest payable	1,390	—	1,390	—	1,390

The following table reconciles, at September 30, 2023 and December 31, 2022, the beginning and ending balances for debt securities available-for-sale that are recognized at fair value on a recurring basis, in the Consolidated Statements of Financial Condition, using significant unobservable inputs.

	September 30, 2023	December 31, 2022
	(in thousands)	
Beginning balance	$ —	$ 4,929
Total loss included in earnings	—	(344)
Transfer out of level 3	—	(4,585)
Ending balance	$ —	$ —

The Company recognizes transfers between levels of the valuation hierarchy at the end of the applicable reporting periods. There were no transfers into or out of Level 3 assets or liabilities in the fair value hierarchy at September 30, 2023 and one security transferred out of Level 3 assets in the fair value hierarchy at December 31, 2022. Fair value for Level 3 securities was determined using a third-party pricing service with limited levels of activity and price transparency.

Off-Balance-Sheet Instruments: Loan commitments on which the committed interest rate is less than the current market rate are insignificant at September 30, 2023 and December 31, 2022.

The fair value information about financial instruments are disclosed, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair value amounts for 2023 and 2022 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each period.

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the 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 banks may not be meaningful.

Note 15. Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board, the OCC and the U.S. Department of Housing and Urban Development. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's operations and financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require the maintenance of minimum amounts and ratios (set forth in the table below) of total risk-based and Tier 1 capital to risk-weighted assets (as defined), common equity Tier 1 capital (as defined), and Tier 1 capital to adjusted total assets (as defined) adjusted total assets (as defined). As of September 30, 2023 and December 31, 2022, the applicable capital adequacy requirements specified below have been met.

The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions including dividend payments and certain discretionary bonus payments to executive officers. The applicable capital buffer for the Bank was 17.10% at September 30, 2023 and 22.53% at December 31, 2022.

The most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, common equity risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There were no conditions or events since then that have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios as of September 30, 2023 and December 31, 2022 as compared to regulatory requirements are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
September 30, 2023						
Ponce Financial Group, Inc.						
Total Capital to Risk-Weighted Assets	$ 530,056	27.07%	$ 156,624	8.00%	$ 195,780	10.00%
Tier 1 Capital to Risk-Weighted Assets	505,508	25.82%	117,468	6.00%	156,624	8.00%
Common Equity Tier 1 Capital Ratio	505,508	25.82%	88,101	4.50%	127,257	6.50%
Tier 1 Capital to Total Assets	505,508	19.90%	101,597	4.00%	126,996	5.00%
Ponce Bank						
Total Capital to Risk-Weighted Assets	$ 488,108	25.10%	$ 155,543	8.00%	$ 194,429	10.00%
Tier 1 Capital to Risk-Weighted Assets	463,727	23.85%	116,657	6.00%	155,543	8.00%
Common Equity Tier 1 Capital Ratio	463,727	23.85%	87,493	4.50%	126,379	6.50%
Tier 1 Capital to Total Assets	463,727	17.51%	105,950	4.00%	132,437	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2022						
Ponce Financial Group, Inc.						
Total Capital to Risk-Weighted Assets	$ 530,241	33.72%	$ 125,791	8.00%	$ 157,238	10.00%
Tier 1 Capital to Risk-Weighted Assets	510,537	32.47%	94,343	6.00%	125,791	8.00%
Common Equity Tier 1 Capital Ratio	510,537	32.47%	70,757	4.50%	102,205	6.50%
Tier 1 Capital to Total Assets	510,537	26.29%	77,665	4.00%	97,082	5.00%
Ponce Bank						
Total Capital to Risk-Weighted Assets	$ 476,519	30.53%	$ 124,883	8.00%	$ 156,104	10.00%
Tier 1 Capital to Risk-Weighted Assets	456,816	29.26%	93,662	6.00%	124,883	8.00%
Common Equity Tier 1 Capital Ratio	456,816	29.26%	70,247	4.50%	101,468	6.50%
Tier 1 Capital to Total Assets	456,816	20.47%	89,264	4.00%	111,580	5.00%

Ponce Financial Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Ponce Bank, through its Mortgage World division, is subject to various net worth requirements in connection with lending agreements that Ponce Bank has entered with purchase facility lenders. Failure to maintain minimum capital requirements could result in the Bank’s Mortgage World division being unable to originate and service loans, and, therefore, could have a direct material effect on the Company’s consolidated financial statements.

The Bank's minimum net worth requirements as of September 30, 2023 and December 31, 2022 are reflected below:

	Minimum Requirement (in thousands)
September 30, 2023	
HUD	$ 1,000

	Minimum Requirement (in thousands)
December 31, 2022	
HUD	$ 1,000

As of September 30, 2023 and December 31, 2022, the Bank was in compliance with the applicable minimum capital requirements specified above.

Note 16. Accumulated Other Comprehensive Loss

The accumulated other comprehensive loss is as follows:

		September 30, 2023	
	December 31, 2022	Change	September 30, 2023
		(in thousands)	
Unrealized losses on available-for-sale securities, net	$ (17,860)	$ (2,608)	$ (20,468)
Total	$ (17,860)	$ (2,608)	$ (20,468)

		December 31, 2022	
	December 31, 2021	Change	December 31, 2022
		(in thousands)	
Unrealized losses on available-for-sale securities, net	$ (1,456)	$ (16,404)	$ (17,860)
Total	$ (1,456)	$ (16,404)	$ (17,860)

Note 17. Transactions with Related Parties

Directors, executive officers and non-executive officers of the Company have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Aggregate loan transactions with related parties for the three and nine months ended September 30, 2023 and 2022 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousand)			
Beginning balance [(1)]	$ 8,614	$ 7,532	$ 8,318	$ 5,631
Originations [(1)]	50	1,223	678	5,418
Payments	(851)	(269)	(1,183)	(2,563)
Ending balance	$ 7,813	$ 8,486	$ 7,813	$ 8,486

(1)Includes loans held by James Perez who became a director on March 17, 2022.

The Company held deposits in the amount of $7.0 million and $8.0 million from directors, executive officers and non-executive officers at September 30, 2023 and December 31, 2022, respectively.

Note 18. Subsequent Events

In order to better manage its interest rate risk, on October 12, 2023 the Bank entered into two interest rate swap transactions with Goldman Sachs Bank USA. One interest rate swap is for a period of two years effective October 12, 2023 and terminates on November 1, 2025 with a notional amount of $150.0 million. The Bank will pay a fixed rate of interest of 4.885% and receive the Secured Overnight Financing Rate ("SOFR") rate. The other interest rate swap is for a period of three years effective October 12, 2023 and terminates on November 1, 2026 with a notional amount of $100.0 million. The Bank will pay a fixed rate of interest of 4.62% and receive the SOFR rate.

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

General

Management's discussion and analysis of the financial condition at September 30, 2023 and December 31, 2022, and results of operations for the three and nine months ended September 30, 2023 and 2022, is intended to assist in understanding the financial condition and results of operations of Ponce Financial Group, Inc. (the "Company"). The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "believe," "contemplate," "continue," "target" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of the Company's goals, intentions and expectations;
- statements regarding its business plans, prospects, growth and operating strategies;
- statements regarding the quality of its loan and investment portfolios; and
- estimates of the risks and future costs and benefits;

These forward-looking statements are based on current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the scope, duration and severity of rising interest rates, and its effects on our business and operations, our customers, including their ability to make timely payments on loans, our service providers, and on the economy and financial markets in general;
- changes in consumer spending, borrowing and savings habits;
- general economic conditions, either nationally or in the market areas, that are worse than expected;
- the Company's ability to manage market risk, credit risk and operational risk in the current economic environment;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- the ability to access cost-effective funding;
- fluctuations in real estate values and real estate market conditions;
- demand for loans and deposits in the market area;
- the Company's ability to implement and change its business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce the Company's margins and yields, its mortgage banking revenues, the fair value of financial instruments or the level of loan originations, or increase the level of defaults, losses and prepayments on loans the Company have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- adverse changes related to the businesses of our partners, including Grain Technology, Inc. ("Grain") specifically (as defined herein);
- changes in the quality or composition of the Company's loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;

- the inability of third party providers to perform as expected;
- the Company's ability to enter new markets successfully and capitalize on growth opportunities;
- the Company's ability to successfully integrate into its operations, any assets, liabilities, customers, systems and management personnel the Company may acquire and management's ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- the Company's ability to retain key employees;
- the Company's compensation expense associated with equity allocated or awarded to its employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that the Company may own.

Additional factors that may affect the Company's results are discussed in our Annual Report on Form 10-K for the year ended December 31, 2022 under the heading "Risk Factors" filed with the Securities and Exchange Commission ("SEC") on March 21, 2023.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. The Company is under no duty to and does not assume any obligation to update any forward-looking statements after the date they were made, whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

The following discussion contains certain non-GAAP financial measures in addition to results presented in accordance with GAAP. These non-GAAP measures are intended to provide the reader with additional supplemental perspective on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company's GAAP financial information. The Company's non-GAAP measures may not be comparable to similar non-GAAP information which may be presented by other companies. In all cases, it should be understood that non-GAAP operating measures do not depict amounts that accrue directly to the benefit of shareholders. An item that management excludes when computing non-GAAP adjusted earnings can be of substantial importance to the Company's results and condition for any particular year. A reconciliation of non-GAAP financial measures to GAAP measures is provided below.

The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. Management believes that these non-GAAP financial measures are useful in evaluating the Company's financial performance and facilitate comparisons with the performance of other financial institutions. However, the information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

The table below includes references to the Company's net income (loss) and earnings (loss) per share for the nine months ended September 30, 2023 and 2022 before the Company's contribution to the Ponce De Leon Foundation. In management's view, that information, which is considered non-GAAP information, may be useful to investors as it will improve an understanding of core operations for the current and future periods. The non-GAAP net income (loss) amount and earnings (loss) per share reflect adjustments related to the non-recurring gain on sale of real property and the Company's contribution to the Ponce De Leon Foundation, net of tax effect. A reconciliation of the non-GAAP information to GAAP net income (loss) and earnings (loss) per share is provided below.

Non-GAAP Reconciliation – Net Income (Loss) before the Contribution to the Ponce De Leon Foundation (Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(Dollars in thousands, except per share data)	
Net income (loss) - GAAP	$ 2,834	$ (20,787)
Loss on sale of premises and equipment	—	436
Contribution to the Ponce De Leon Foundation	—	4,995
Income tax benefit	—	(1,141)
Net income (loss) - non-GAAP	$ 2,834	$ (16,497)
Earnings (loss) per common share (GAAP) (1)	$ 0.12	$ (0.92)
Earnings (loss) per common share (non-GAAP) (1)	$ 0.12	$ (0.73)

(1)Earnings (loss) per share were computed (for the GAAP and non-GAAP basis) based on the weighted average number of basic shares outstanding for the nine months ended September 30, 2023 and 2022 (22,920,680 shares and 22,524,477 shares, respectively).

The CARES Act

On March 27, 2020, Congress passed, and the President signed, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to address the economic effects of the COVID-19 pandemic.

The CARES Act appropriated $349.0 billion for PPP loans and on April 24, 2020, the U.S. Small Business Administration (“SBA”) received another $310.0 billion in PPP funding. On December 27, 2020, the Economic Aid Act appropriated $284.0 billion for both first and second draw PPP loans, bringing the total appropriations for PPP loans to $943.0 billion. PPP ended on May 31, 2021. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. The Company had received SBA approval and originated 5,340 PPP loans, of which 7 loans totaling $1.1 million were outstanding at September 30, 2023. PPP loans have a two-year or five-year term, provide for fees of up to 5% of the loan amount and earn interest at a rate of 1% per annum.

Federal Economic Relief Funds To Aid Lending

On June 7, 2022, Ponce Financial Group, Inc. (the “Company”), the holding company for Ponce Bank, closed a private placement (the “Private Placement”) of 225,000 shares of the Company’s Senior Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 (the “Preferred Stock”) for an aggregate purchase price equal to $225,000,000 in cash, to the United States Department of the Treasury (the “Treasury”) pursuant to the Emergency Capital Investment Program (“ECIP”). The holders of the Preferred Stock will be entitled to a dividend payable in cash quarterly at an annual rate dependent on certain factors as reported by the Company to Treasury in a quarterly supplemental report. The initial dividend rate is zero percent for the first two years after issuance, and thereafter the floor dividend rate is 0.50% and the ceiling dividend rate is 2.00%. After 10 years of issuance, the perpetual dividend rate in effect, will be determined based on said floor and ceiling. The actual dividend rate that will be paid by the Company on the Preferred Stock cannot be determined at this time.

The ECIP investment by the Treasury is part of a program to invest over $8.7 billion into Community Development Financial Institution (“CDFI”) or Minority Depository Institution (“MDI”), of which Ponce Bank is both. The ECIP is intended to incentivize CDFIs and MDIs to provide loans, grants, and forbearance to small businesses, minority-owned businesses, and consumers in low-income and underserved communities that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic.

In the event of a liquidation, dissolution or winding up of the Company, the Preferred Stock will be entitled to a liquidation preference, subject to certain limitations, in the amount of the sum of $1,000 per share plus declared and unpaid dividends (without accumulation of undeclared dividends) on each share.

CDFI Equitable Recovery Program

On September 26, 2023, the Bank received a $3.7 million grant from the U.S. Treasury as part of the Community Development Financial Institutions ("CDFI") Equitable Recovery Program ("ERP") which aims to help CDFI's further their mission of helping low and low-to-moderate income communities recover from the impact of the COVID-19 pandemic.

Bank Enterprise Award Program

The Bank received approval for a grant in the amount of $0.5 million as part of the Bank Enterprise Award Program from the CDFI. Awards under the Bank Enterprise Award Program are subject to the program terms and must be used for qualified activities, which include providing loans, investments and financial services to residents and businesses in distressed communities.

Critical Accounting Policies

Accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management and that could have a material impact on the carrying value of certain assets, liabilities or on income under different assumptions or conditions. Management believes that the most critical accounting policy relates to the allowance for credit losses.

The allowance for credit losses is established as probable incurred losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The discussion and analysis of the financial condition and results of operations are based on the Company’s consolidated financial statements, which are prepared in conformity with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. The estimates and assumptions used are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

See Note 1, “Nature of Business and Summary of Significant Accounting Policies,” to the accompanying Financial Statements for a discussion of significant accounting policies.

Factors Affecting the Comparability of Results

Ponce De Leon Foundation.

On January 27, 2022, the Company made a $5.0 million contribution to the Ponce De Leon Foundation as part of the conversion and reorganization, which is included in non-interest expense for the nine months ended September 30, 2022, in the accompanying Consolidated Statements of Operations.

Write-off and Write-Down.

In 2020, the Company entered into a business arrangement with the FinTech startup company Grain. Grain’s product is a mobile application geared to the underbanked, minorities and new generations entering the financial services market. In employing this mobile application, the Bank uses non-traditional underwriting methodologies to provide revolving credit to borrowers who otherwise may gravitate to using alternative non-bank lenders. Under the terms of its agreement with Grain, the Bank is the lender for Grain-originated microloans with credit lines currently up to $1,500 and, where applicable, the depository for related security deposits. Grain originates and services these microloans and is responsible for maintaining compliance with the Bank's origination and servicing standards, as well as applicable regulatory and legal requirements. If a microloan is found to be fraudulent, becomes 90 days delinquent upon 90 days of origination or defaults due to a failure of Grain to properly service the microloan, the Bank’s applicable standards for origination or servicing are deemed to have not been complied with and the microloan is put back to Grain, who then becomes responsible for the microloan and any related losses. The microloans put back to Grain are accounted for as an “other asset,” specifically referred to herein as the “Grain Receivable.” At December 31, 2022, the Bank had 27,886 Grain microloans outstanding, net of put backs, with an aggregate balance totaling $18.2 million and which were performing, in management's opinion, comparably to similar portfolios, offset by a $15.4 million allowance for loan losses, resulting in $2.8 million in Grain microloans, net of allowance for loan losses.

At September 30, 2023, the Bank had 16,687 Grain microloans outstanding, net of put backs, with an aggregate balance totaling $9.3 million and which were performing, in management’s opinion, comparably to similar portfolios, offset by an $8.1 million allowance for credit losses, resulting in $1.2 million in Grain microloans. Since the beginning of the Bank’s agreement with Grain and through

September 30, 2023, 45,322 microloans amounting to $24.3 million have been deemed to be fraudulent and put back to Grain. The Company has written-down a total of $15.6 million, net of recoveries, of the Grain Receivable and received $6.8 million in cash from Grain and through the application of security deposits connected to fraudulent loan accounts. The Bank also opted to use the $1.8 million grant it received from the U.S. Treasury Department's Rapid Response Program to defray the Grain Receivable. The application of those amounts resulted in no net receivable. Additionally, the Company wrote-off its equity investment in Grain of $1.0 million during the year ended December 31, 2022. As of September 30, 2023, the Company's total exposure to Grain was $1.2 million of the remaining microloans, net of allowance for credit losses, excluding $2.4 million of unused commitments available to Grain borrowers and $1.6 million of security deposits by Grain borrowers. The $1.3 million of recoveries for the nine months ended September 30, 2023 and the $18.5 million write-off for the nine months ended September 30, 2022 related to Grain is included in non-interest expense in the accompanying Consolidated Statements of Operations. Of the $1.3 million of recoveries for the nine months ended September 30, 2023, $0.7 million were payments received from Grain on the Grain Receivable and the remainder were payments from Grain borrowers.

Grain Technology, Inc. ("Grain") Total Exposure as of September 30, 2023
(in thousands)

Receivable from Grain		
Microloans originated - put back to Grain (inception-to-September 30, 2023)	$	24,255
Write-downs, net of recoveries (inception-to-date as of September 30, 2023)		(15,610)
Cash receipts from Grain (inception-to-September 30, 2023)		(6,819)
Grant/reserve (inception-to-September 30, 2023)		(1,826)
Net receivable as of September 30, 2023	$	—
Microloan receivables from Grain borrowers		
Grain originated loans receivable as of September 30, 2023	$	9,318
Allowance for credit losses as of September 30, 2023 (1)		(8,163)
Microloans, net of allowance for credit losses as of September 30, 2023	$	1,155
Investments		
Investment in Grain	$	1,000
Investment in Grain write-off		(1,000)
Investment in Grain as of September 30, 2023	$	—
Total exposure to Grain as of September 30, 2023	$	1,155

(1) Includes $0.3 million for allowance for unused commitments on the $2.4 million of unused commitments available to Grain borrowers reported in other liabilities in the accompanying Consolidated Statements of Financial Conditions. Excludes $1.6 million of security deposits by Grain originated borrowers reported in deposits in the accompanying Consolidated Statements of Financial Conditions.

Grain has been victimized by cyber fraud using synthetic and other forms of fraudulent identifications, a phenomenon that has become prevalent with Fintechs. Grain remains a pre-profit startup highly dependent on earnings from its relationship with the Bank, a new relationship with another financial institution, and further capital raises which may not materialize.

The Company continues to closely monitor its portfolio of consumer loans originated by Grain as well as Grain's refinement of solutions for detecting and preventing cyber fraud in the application for microloans. The Company has requested, and Grain has agreed, that no new microloans be originated until further notice and that further extensions of credit to an existing microloan borrower only be made upon confirmation that such borrower is not fraudulent. Further, like other start-up companies, there is a higher level of risk that Grain may not be able to execute its business plan and may fail. In the event Grain were to cease operations, and although it has considered contingency plans, the Bank may have greater difficulty in servicing and collecting the microloan portfolio. In such a case, the level the Bank has provided for in its allowance for credit losses for its microloan portfolio may be inadequate and it may need to increase its provision for credit losses, which could materially decrease the Company's net income. As a consequence of such events, the Bank may determine it appropriate to terminate its relationship with Grain.

Vision 2025 Evolves

The Company has deployed a Fintech-based small business automated lending technology in partnership with LendingFront Technologies, Inc. The technology is a mobile application that digitizes the lending workflow from pre-approval to servicing and enables the Company to originate, close and fund small business loans within very short spans of time, without requiring a physical presence within banking offices and with automated underwriting using both traditional and non-traditional methods. The application has full loan origination and servicing capabilities and is integrated with Salesforce. All Commercial Relationship Officers and Business Development Managers will utilize these capabilities. The Company is seeking to establish loan origination partnerships with non-profit and community-based organizations to ensure penetration in underserved and underbanked markets.

The Company also established a relationship with SaveBetter, LLC, a fintech startup focusing on brokered deposits. As of September 30, 2023, the Company had $350.2 million in such deposits. The recent regulatory easing of brokered deposit rules may enable the Company to classify such deposits as core deposits.

On October 1, 2022, the Company entered into a Membership Interest Purchase Agreement with Bamboo Payment Holding LLC ("Bamboo"). Under the agreement, the Company purchased from Bamboo 180 Membership Interest Units representing an aggregate amount equal to up to 18% of total issued and outstanding Membership Interest in Bamboo for a purchase price of $2.5 million. During the first nine months of 2023, the Company made three additional contributions for a total of $1.0 million for a total investment in Bamboo of $3.5 million. With over a decade processing payments in Latin America, Bamboo has a diverse network connects Latin American local payment processing to global companies as well as domestic solutions to locally based organizations.

At December 31, 2018, the Company had approximately $1.06 billion in assets, $918.5 million in loans and $809.8 million in deposits. The Company has since grown to $2.62 billion in assets, $1.79 billion in loans receivables, net of allowance for credit losses of $27.4 million, and $1.40 billion in deposits at September 30, 2023, all while investing in infrastructure, implementing digital banking, acquiring Mortgage World, adopting GPS, diversifying its product offering and partnering with Fintech companies. The Company raised over $132.0 million in additional capital through our conversion and reorganization and realized approximately $20.0 million in net gain while freeing up approximately $40.0 million in investable funds through our sale-and-leaseback initiative. Now, the Company believes that it is poised to enhance its presence, locally and in similar communities outside New York, as a leading CDFI and MDI financial institution holding company.

On June 7, 2022, the Company issued 225,000 shares of the Company’s Preferred Stock, par value $0.01 for an aggregate purchase price equal to $225.0 million in cash to the Treasury, pursuant to the Treasury’s ECIP. Under the ECIP, Treasury provided investment capital directly to depository institutions that are CDFIs or MDIs or their holding companies, to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, in low-income and underserved communities. Treasury has indicated that the investment will qualify as Tier 1 capital. No dividends will accrue or be due for the first two years after issuance. For years three through ten, depending upon the level of qualified and/or deep impact lending made in targeted communities, as defined in the ECIP guidelines, dividends will be at an annual rate of either 2.0%, 1.25% or 0.5% and, thereafter, will be fixed at one of the foregoing rates. Holders of Preferred Stock generally do not have any voting rights, with the exception of voting rights on certain matters as outlined in the Certificate of Designations. The Company has the option to redeem the shares of Preferred Stock (i) in whole or in part on any dividend payment date on or after June 15, 2027, or (ii) in whole but not in part at any time within ninety days following a Regulatory Capital Treatment Event, as defined below, in each case at a cash redemption price equal to the liquidation amount, with an amount equal to any dividends that have been declared but not paid prior to the redemption date. The Company may not redeem shares of Preferred Stock without having received the prior approval of the appropriate Federal banking agency for the Company, as defined in Section 3(q) of the Federal Deposit Insurance Act, to the extent required under applicable capital rules. Such redemptions are subject to certain conditions and limitations. In the event of a liquidation, dissolution or winding up of the Company, the Preferred Stock will be entitled to a liquidation preference, subject to certain limitations, in the amount of the sum of $1,000 per share plus declared and unpaid dividends (without accumulation of undeclared dividends) on each share.

A “Regulatory Capital Treatment Event” means a good-faith determination that, as a result of (i) any amendment to, or change in, the laws, rules or regulations of the United States or any political subdivision of or in the United States (including, for the avoidance of doubt, any agency or instrumentality of the United States, including the Federal Reserve and other appropriate federal bank regulatory agencies) that is enacted or becomes effective after the initial issuance of any share of the Preferred Stock; (ii) any proposed change in those laws, rules or regulations that is announced after the initial issuance of any share of the Preferred Stock; or (iii) any official administrative or judicial decision or administrative action or other official pronouncement interpreting or applying those laws, rules or regulations or policies with respect thereto that is announced or becomes effective after the initial issuance of the Preferred Stock, there is more than an insubstantial risk that we will not be entitled to treat the full liquidation preferences of the shares of Preferred Stock then outstanding as “Additional Tier 1 Capital” (or its equivalent) for purposes of the capital adequacy standards of Federal Reserve Regulation Q, 12 C.F.R. Part 217 (or, as and if applicable, the successor capital adequacy guidelines, rules or regulations of the Federal Reserve or the capital adequacy guidelines, rules or regulations of any successor appropriate federal banking agency), as then in effect and applicable, for as long as any share of Preferred Stock is outstanding.

Comparison of Financial Condition at September 30, 2023 and December 31, 2022

Total Assets. Total consolidated assets increased $311.9 million, or 13.5%, to $2.62 billion at September 30, 2023 from $2.31 billion at December 31, 2022. The increase in total assets is largely attributable to increases of $294.5 million in net loans receivable, $62.7 million in cash and cash equivalents, $12.1 million in mortgage loans held for sale and $2.3 million in other assets, offset by decreases of $39.8 million in held-to-maturity securities, $12.8 million in available-for-sale securities and $5.8 million in Federal Home Loan Bank of New York stock.

Cash and Cash Equivalents. Cash and cash equivalents increased $62.7 million, or 115.3%, to $117.0 million at September 30, 2023, compared to $54.4 million at December 31, 2022. The increase in cash and cash equivalents was primarily the result of increases of $157.7 million in net borrowings and $148.7 million in net deposits, proceeds of $48.6 million from maturities/calls of securities and $32.8 million in proceeds from the sale of loans, offset by increases of $294.6 million in net loans and $42.8 million in loans held for sale and $11.0 million in share repurchases.

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Table of Contents

Securities. The composition of securities at September 30, 2023 and December 31, 2022 and the amounts maturing of each classification are summarized as follows:

	September 30, 2023 Amortized Cost	September 30, 2023 Fair Value	December 31, 2022 Amortized Cost	December 31, 2022 Fair Value
	(in thousands)			
Available-for-Sale Securities:				
U.S. Government Bonds:				
Amounts maturing:				
Three months or less	$ —	$ —	$ —	$ —
More than three months through one year	—	—	—	—
More than one year through five years	2,989	2,713	2,985	2,689
More than five years through ten years	—	—	—	—
	2,989	2,713	2,985	2,689
Corporate Bonds:				
Amounts maturing:				
Three months or less	—	—	—	—
More than three months through one year	4,000	3,802	—	—
More than one year through five years	1,000	729	4,000	3,710
More than five years through ten years	20,799	18,659	21,824	19,649
	25,799	23,190	25,824	23,359
Mortgage-Backed Securities	113,966	90,850	123,134	103,457
Total Available-for-Sale Securities	$ 142,754	$ 116,753	$ 151,943	$ 129,505
Held-to-Maturity Securities:				
U.S. Agency Bonds:				
Amounts maturing:				
Three months or less	$ —	$ —	$ —	$ —
More than three months through one year	—	—	—	—
More than one year through five years	25,000	24,496	35,000	34,620
More than five years through ten years	—	—	—	—
	25,000	24,496	35,000	34,620
Corporate Bonds:				
Amounts maturing:				
Three months or less	$ —	$ —	$ —	$ —
More than three months through one year	—	—	—	—
More than one year through five years	75,000	70,381	75,000	71,328
More than five years through ten years	7,500	7,002	7,500	7,410
	82,500	77,383	82,500	78,738
Mortgage-Backed Securities	364,212	342,985	393,320	382,493
Allowance for Credit Losses	(647)	—	—	—
Total Held-to-Maturity Securities	$ 471,065	$ 444,864	$ 510,820	$ 495,851

The Company securities portfolio decreased $39.8 million in held-to-maturity and $12.8 million in available-for-sale during the nine months ended September 30, 2023. The decrease was primarily due to a call on one of the securities in the amount of $10.0 million and changes in principal.

Gross Loans Receivable. The composition of gross loans receivable at September 30, 2023 and at December 31, 2022 and the percentage of each classification to total loans are summarized as follows:

	September 30, 2023		December 31, 2022		Increase (Decrease)	
	Amount	Percent	Amount	Percent	Dollars	Percent
	(Dollars in thousands)					
Mortgage loans:						
1-4 Family residential						
Investor-Owned	$ 347,082	19.1 %	$ 343,968	22.6 %	$ 3,114	0.9 %
Owner-Occupied	151,866	8.4 %	134,878	8.8 %	16,988	12.6 %
Multifamily residential	553,694	30.5 %	494,667	32.4 %	59,027	11.9 %
Nonresidential properties	321,472	17.7 %	308,043	20.2 %	13,429	4.4 %
Construction and land	411,383	22.7 %	185,018	12.1 %	226,365	122.3 %
Total mortgage loans	1,785,497	98.4 %	1,466,574	96.1 %	318,923	21.7 %
Nonmortgage loans:						
Business loans (1)	18,416	1.0 %	39,965	2.6 %	(21,549)	(53.9 %)
Consumer loans (2)	10,416	0.6 %	19,129	1.3 %	(8,713)	(45.5 %)
	28,832	1.6 %	59,094	3.9 %	(30,262)	(51.2 %)
Total	$ 1,814,329	100.0 %	$ 1,525,668	100.0 %	$ 288,661	18.9 %

(1)As of September 30, 2023 and December 31, 2022, business loans include $1.1 million and $20.0 million, respectively, of PPP loans.

(2)As of September 30, 2023 and December 31, 2022, consumer loans include $9.3 million and $18.2 million of microloans originated by Grain pursuant to its arrangement with the Bank.

Based on current internal loan reviews, the Company believes that the quality of our underwriting, our weighted average loan-to-value ratio of 58.3% and our customer selection processes have served us well and provided us with a reliable base with which to maintain a well-protected loan portfolio.

Commercial real estate loans, as defined by applicable banking regulations, include multifamily residential, nonresidential properties, and construction and land mortgage loans. At September 30, 2023 and December 31, 2022, approximately 4.9% and 6.4%, respectively, of the outstanding principal balance of the Bank's commercial real estate mortgage loans were secured by owner-occupied commercial real estate. Owner-occupied commercial real estate is similar in many ways to commercial and industrial lending in that these loans are generally made to businesses predominantly on the basis of the cash flows of the business rather than on valuation of the real estate.

Banking regulations have established guidelines relating to the amount of construction and land mortgage loans and investor- owned commercial real estate mortgage loans of 100% and 300% of total risk-based capital, respectively. Should a bank's ratios be in excess of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by bank management. The Bank's policy is to operate within the 100% guideline for construction and land mortgage loans and up to 400% for investor owned commercial real estate mortgage loans. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by the Bank's total risk-based capital. At September 30, 2023 and December 31, 2022, the Bank's construction and land mortgage loans as a percentage of total risk-based capital was 85.1% and 38.5%, respectively. Investor owned commercial real estate mortgage loans as a percentage of total risk-based capital was 251.7% and 194.0% as of September 30, 2023 and December 31, 2022, respectively. At September 30, 2023, the Bank was within the 100% guideline for construction and land mortgage loans and the 300% guideline for investor owned commercial real estate mortgage loans established by banking regulators. Management believes that it has established the appropriate level of controls to monitor the Bank's lending in these areas.

Loans Held For Sale. Loans held for sale, at fair value, at September 30, 2023 increased $12.1 million, or 612.6%, to $14.1 million from $2.0 million at December 31, 2022.

Deposits. The composition of deposits at September 30, 2023 and December 31, 2022 and changes in dollars and percentages are summarized as follows:

	September 30, 2023		December 31, 2022		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Dollars	Percent
			(Dollars in thousands)			
Demand	$ 265,862	19.0 %	$ 289,149	23.1 %	$ (23,287)	(8.1 %)
Interest-bearing deposits:						
NOW/IOLA accounts	22,519	1.6 %	24,349	1.9 %	(1,830)	(7.5 %)
Money market accounts [(1)]	370,500	26.4 %	236,143	18.9 %	134,357	56.9 %
Reciprocal deposits	82,670	5.9 %	114,049	9.1 %	(31,379)	(27.5 %)
Savings accounts	117,870	8.4 %	130,432	10.4 %	(12,562)	(9.6 %)
Total NOW, money market, reciprocal and savings	593,559	42.3 %	504,973	40.3 %	88,586	17.5 %
Certificates of deposit of $250K or more [(1)]	122,353	8.7 %	106,336	8.5 %	16,017	15.1 %
Brokered certificates of deposit [(2)]	98,729	7.1 %	98,754	7.9 %	(25)	(0.0 %)
Listing service deposits [(2)]	15,180	1.1 %	35,813	2.9 %	(20,633)	(57.6 %)
Certificates of deposit less than $250K [(1)]	305,449	21.8 %	217,387	17.3 %	88,062	40.5 %
Total certificates of deposit	541,711	38.7 %	458,290	36.6 %	83,421	18.2 %
Total interest-bearing deposits	1,135,270	81.0 %	963,263	76.9 %	172,007	17.9 %
Total deposits	$ 1,401,132	100.0 %	$ 1,252,412	100.0 %	$ 148,720	11.9 %

(1)As of December 31, 2022, $81.7 million of SaveBetter deposits were reclassified from money market accounts to certificates of deposits. $36.2 million were reclassified to Certificates of deposits of $250K or more and $45.5 million were reclassified to certificates of deposit less than $250K.

(2)As of September 30, 2023 and December 31, 2022, there were $0.3 million and $13.6 million, respectively, in individual listing service deposits amounting to $250,000 or more. All brokered certificates of deposit individually amounted to less than $250,000.

When wholesale funding is necessary to complement the Company's core deposit base, management determines which source is best suited to address both liquidity risk and interest rate risk in line with management objectives. The Company's Interest Rate Risk Policy imposes limitations on overall wholesale funding and noncore funding reliance. The overall reliance on wholesale funding and noncore funding were within those policy limitations as of September 30, 2023 and December 31, 2022. The Management Asset/Liability Committee generally meets on a bi-weekly basis to review funding needs, if any, and to ensure the Company operates within the approved limitations.

Borrowings. The Bank had outstanding borrowings at September 30, 2023 of $675.1 million in term advances from the FHLBNY and FRBNY and $511.4 million of outstanding term advances from the FHLBNY at December 31, 2022. The Bank also had $6.0 million of overnight line of credit advance from the FHLBNY at December 31, 2022. Additionally, the Bank had two unsecured lines of credit in the amount of $75.0 million and $90.0 million with two correspondent banks at September 30, 2023 and December 31, 2022, respectively, under which there was nothing outstanding at both September 30, 2023 and December 31, 2022. The Bank had no overnight line of credit advance at September 30, 2023.

Stockholders' Equity. The Company's consolidated stockholders' equity decreased $7.6 million, or 1.55%, to $485.1 million at September 30, 2023 from $492.7 million at December 31, 2022. This decrease in stockholders' equity was largely attributable to $11.0 million in share repurchases and an increase of $2.6 million in other comprehensive loss, partially offset by $2.8 million in net income, $1.2 million in share-based compensation, $1.1 million as a result of implementation of CECL and $0.8 million in ESOP.

Comparison of Results of Operations for the Three Months Ended September 30, 2023 and 2022

The discussion of the Company's results of operations for the three months ended September 30, 2023 and 2022 are presented below. The results of operations for interim periods may not be indicative of future results.

Overview. Net income for the three months ended September 30, 2023 was $2.6 million compared to net loss of ($14.7) million for the three months ended September 30, 2022. Earnings per basic and diluted share was $0.12 for the three months ended September 30, 2023 compared to loss per basic and diluted share of $(0.64) for three months ended September 30, 2022. The $17.3 million increase of net income for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was due to decreases of $8.8 million in provision for credit losses and $8.1 million in non-interest expenses and an increase of $4.1 million of non-interest income, offset by an increase of $2.5 million in provision for income taxes and a decrease of $1.1 million in net interest income.

The following table presents the results of operations for the periods indicated:

	For the Three Months Ended September 30, 2023	2022	Increase (Decrease) Dollars	Percent
	(Dollars in thousands)			
Interest and dividend income	$ 33,506	$ 21,634	$ 11,872	54.9 %
Interest expense	16,964	4,023	12,941	321.7 %
Net interest income	16,542	17,611	(1,069)	(6.1 %)
Provision for credit losses	535	9,330	(8,795)	(94.3 %)
Net interest income after provision for loan losses	16,007	8,281	7,726	93.3 %
Non-interest income	5,627	1,577	4,050	256.8 %
Non-interest expense	17,316	25,416	(8,100)	(31.9 %)
Loss income before income taxes	4,318	(15,558)	19,876	(127.8 %)
Benefit for income taxes	1,728	(820)	2,548	(310.7 %)
Net (loss) income	$ 2,590	$ (14,738)	$ 17,328	(117.6 %)
Earnings per share:				
Basic	$ 0.12	$ (0.64)	$ 0.76	(118.4 %)
Diluted	$ 0.12	$ (0.64)	$ 0.76	(118.4 %)

Interest and Dividend Income. Interest and dividend income increased $11.9 million, or 54.9%, to $33.5 million for the three months ended September 30, 2023 from $21.6 million for the three months ended September 30, 2022. Interest income on loans receivable, which is the Company's primary source of income, increased $8.2 million, or 48.2%, to $25.3 million for the three months ended September 30, 2023 from $17.1 million for the three months ended September 30, 2022. Interest and dividend income on securities and FHLBNY stock and deposits due from banks increased $3.7 million, or 79.9%, to $8.2 million for the three months ended September 30, 2023 from $4.6 million for the three months ended September 30, 2022.

The following table presents interest income on loans receivable for the periods indicated:

	For the Three Months Ended September 30, 2023	2022	Change Amount	Percent
	(Dollars in thousands)			
1-4 Family residential	$ 7,610	$ 5,023	$ 2,587	51.5 %
Multifamily residential	6,883	4,472	2,411	53.9 %
Nonresidential properties	4,020	3,142	878	27.9 %
Construction and land	6,133	3,011	3,122	103.7 %
Business loans	321	539	(218)	(40.4 %)
Consumer loans	309	871	(562)	(64.5 %)
Total interest income on loans receivable	$ 25,276	$ 17,058	$ 8,218	48.2 %

The following table presents interest and dividend income on securities and FHLBNY stock and deposits due from banks for the periods indicated:

	For the Three Months Ended September 30, 2023	2022	Change Amount	Percent
	(Dollars in thousands)			
Interest on deposits due from banks	$ 1,968	$ 346	$ 1,622	468.8 %
Interest on securities	5,821	4,154	1,667	40.1 %
Dividend on FHLBNY stock	441	76	365	480.3 %
Total interest and dividend income	$ 8,230	$ 4,576	$ 3,654	79.9 %

Interest Expense. Interest expense increased $12.9 million, or 321.7%, to $17.0 million for the three months ended September 30, 2023 from $4.0 million for the three months ended September 30, 2022, primarily due to an increase average cost of funds.

The following table presents interest expense for the periods indicated:

	For the Three Months Ended September 30, 2023	2022	Change Amount	Percent
		(Dollars in thousands)		
Certificates of deposit	$ 4,362	$ 855	$ 3,507	410.2 %
Money market	$ 5,600	$ 1,305	4,295	329.1 %
Savings	$ 29	$ 55	(26)	(47.3 %)
NOW/IOLA	$ 8	$ 13	(5)	(38.5 %)
Advance payments by borrowers	$ 2	$ 2	—	0.0 %
Borrowings	$ 6,963	$ 1,793	5,170	288.3 %
Total interest expense	$ 16,964	$ 4,023	$ 12,941	321.7 %

Net Interest Income. Net interest income decreased $1.1 million, or 6.1%, to $16.5 million for the three months ended September 30, 2023 from $17.6 million for the three months ended September 30, 2022. The $1.1 million decrease in net interest income for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was attributable to an increase of $12.9 million in interest expense due primarily to a higher average cost of funds on interest bearing liabilities, offset by an increase of $11.9 million in interest and dividend income primarily due to increases in average loans receivable and interest and dividend on securities and FHLBNY stock and deposits due from banks.

Net interest rate spread decreased by 150 basis point to 1.58% for the three months ended September 30, 2023 from 3.08% for the three months ended September 30, 2022. The decrease in the net interest rate spread for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was primarily due to an increase in the average rates paid on interest-bearing liabilities of 231 basis points to 3.64% for the three months ended September 30, 2023 from 1.33% for the three months ended September 30, 2022 and an increase in the average yields on interest-earning assets of 81 basis points to 5.22% for the three months ended September 30, 2023 from 4.41% for the three months ended September 30, 2022.

Net interest margin decreased 101 basis points for the three months ended September 30, 2023, to 2.58% from 3.59% for three months ended September 30, 2022, reflecting an increase in our securities portfolio and our organic loan growth.

The Federal Reserve raised the target range for the federal funds rate by 25 basis points to 5.25%-5.50% during its July 26, 2023 meeting, pushing borrowing costs to the highest level in 22 years. The Federal Reserve has signaled that there will likely be additional federal funds interest rate increases. The recent increase and the anticipated increases are in response to inflation rising at a rate not seen in over 40 years. Because of this rising rate environment, the speed with which it is anticipated to be implemented, the significant competitive pressures in our markets and the potential negative impact of these factors on our deposit and loan pricing, our net interest margin may be negatively impacted. Our net interest income may also be negatively impacted if the demand for loans decreases due to the rate increases, alone or in tandem with the concurrent inflationary pressures. We may be negatively impacted if we are unable to appropriately time adjustments to our funding costs and the rates we earn on our loans.

Non-Interest Income. Non-interest income increased $4.1 million, or 256.8%, to $5.6 million for the three months ended September 30, 2023 from $1.6 million for the three months ended September 30, 2022. The increase in non-interest income for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was attributable to a grant of $3.7 million received in the third quarter of 2023 from the Treasury as part of the CDFI Equitable Recovery Program and a $0.5 million in assignment fee that was recognized in the third quarter of 2023.

The following table presents non-interest income for the periods indicated:

	For the Three Months Ended September 30, 2023	2022	Change Amount	Percent
		(Dollars in thousands)		
Service charges and fees	$ 516	$ 464	$ 52	11.2 %
Brokerage commissions	17	288	(271)	(94.1 %)
Late and prepayment charges	899	109	790	724.8 %
Income on sale of mortgage loans	173	116	57	49.1 %
Loan origination	—	522	(522)	(100.0 %)
Grant income	3,718	—	3,718	— %
Loss on sale of premises and equipment	—	(436)	436	(100.0 %)
Other	304	514	(210)	(40.9 %)
Total non-interest income	$ 5,627	$ 1,577	$ 4,050	256.8 %

Non-Interest Expense. Non-interest expense decreased $8.1 million, or 31.9%, to $17.3 million for the three months ended September 30, 2023 from $25.4 million for the three months ended September 30, 2022. The $8.1 million decrease in non-interest expense for the three months ended September 30, 2023, compared to the three months ended September 30, 2022 was mainly attributable to $8.9 million of Grain consumer microloans write-offs during the third quarter of 2022 and a decrease of $0.3 million in direct loan expense, partially offset by increases of $0.6 million in data processing expenses and $0.4 million in professional fees.

The following table presents non-interest expense for the periods indicated:

	For the Three Months Ended September 30,		Change	
	2023	2022	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 7,566	$ 7,377	$ 189	2.6 %
Occupancy and equipment	3,588	3,611	(23)	(0.6 %)
Data processing expenses	1,582	994	588	59.2 %
Direct loan expenses	369	654	(285)	(43.6 %)
Provision for contingencies	391	519	(128)	(24.7 %)
Insurance and surety bond premiums	255	297	(42)	(14.1 %)
Office supplies, telephone and postage	301	369	(68)	(18.4 %)
Professional fees	1,693	1,251	442	35.3 %
Grain recoveries and write-off	(69)	8,881	(8,950)	(100.8 %)
Marketing and promotional expenses	248	214	34	15.9 %
Directors fees and regulatory assessment	169	188	(19)	(10.1 %)
Other operating expenses	1,223	1,061	162	15.3 %
Total non-interest expense	$ 17,316	$ 25,416	$ (8,100)	(31.9 %)

Income Tax (Benefit) Provision. The Company had a provision for income taxes of $1.7 million for the three months ended September 30, 2023 compared to a benefit for income taxes of $0.8 million for three months ended September 30, 2022.

[Table of Contents](#)

Average Balance Sheets

The following table sets forth average outstanding balances, average yields and rates, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. Average balances are derived from average daily balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Three Months Ended September 30,					
	2023			2022		
	Average Outstanding Balance	Interest	Average Yield/Rate [1]	Average Outstanding Balance	Interest	Average Yield/Rate [1]
	(Dollars in thousands)					
Interest-earning assets:						
Loans [2]	$1,777,585	25,276	5.64 %	$1,379,029	$ 17,058	4.91 %
Securities [3]	599,573	5,821	3.85 %	492,337	4,153	3.35 %
Other [4] [5]	169,570	2,409	5.64 %	74,055	423	2.27 %
Total interest-earning assets	2,546,728	33,506	5.22 %	1,945,421	21,634	4.41 %
Non-interest-earning assets [5]	111,771			108,329		
Total assets	$2,658,499			$2,053,750		
Interest-bearing liabilities:						
NOW/IOLA	$ 22,876	$ 8	0.14 %	$ 29,939	$ 13	0.17 %
Money market [6]	485,042	5,601	4.58 %	381,606	1,303	1.35 %
Savings	118,095	29	0.10 %	141,200	57	0.16 %
Certificates of deposit [6]	527,302	4,362	3.28 %	382,163	855	0.89 %
Total deposits	1,153,315	10,000	3.44 %	934,908	2,228	0.95 %
Advance payments by borrowers	14,537	1	0.03 %	10,918	2	0.07 %
Borrowings	678,676	6,963	4.07 %	250,112	1,793	2.84 %
Total interest-bearing liabilities	1,846,528	16,964	3.64 %	1,195,938	4,023	1.33 %
Non-interest-bearing liabilities:						
Non-interest-bearing demand	278,358	—		321,556	—	
Other non-interest-bearing liabilities	46,643	—		16,377	—	
Total non-interest-bearing liabilities	325,001	—		337,933	—	
Total liabilities	2,171,529	16,964		1,533,871	4,023	
Total equity	486,970			519,879		
Total liabilities and total equity	$2,658,499		3.64 %	$2,053,750		1.33 %
Net interest income		$ 16,542			$ 17,611	
Net interest rate spread [7]			1.58 %			3.08 %
Net interest-earning assets [8]	$ 700,200			$ 749,483		
Net interest margin [9]			2.58 %			3.59 %
Average interest-earning assets to interest-bearing liabilities			137.92 %			162.67 %

(1)Annualized where appropriate.

(2)Loans include loans and mortgage loans held for sale, at fair value.

(3)Securities include available-for-sale securities and held-to-maturity securities.

(4)Includes FHLBNY demand account, FHLBNY stock dividends and FRBNY demand deposits.

(5)FRBNY demand deposits for prior period have been reclassified for consistency.

(6)Includes reclassification of $28.3 million average outstanding balances and $0.2 million of interest expenses from money market to certificates of deposit for the three months ended September 30, 2022.

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

(8)Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

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

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on the Company's net interest income for the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Three Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans [1]	$ 4,930	$ 3,288	$ 8,218
Securities [2]	905	763	1,668
Other	546	1,440	1,986
Total interest-earning assets	6,381	5,491	11,872
Interest-bearing liabilities:			
NOW/IOLA	(3)	(2)	(5)
Money market	353	3,945	4,298
Savings	(9)	(19)	(28)
Certificates of deposit	325	3,182	3,507
Total deposits	666	7,106	7,772
Borrowings	3,072	2,098	5,170
Total interest-bearing liabilities	3,738	9,204	12,942
Change in net interest income	$ 2,643	$ (3,713)	$ (1,070)

(1) Loans include loans and mortgage loans held for sale, at fair value.
(2) Securities include available-for-sale securities and held-to-maturity securities.

Comparison of Results of Operations for the Nine Months Ended September 30, 2023 and 2022

The discussion of the Company's results of operations for the nine months ended September 30, 2023 and 2022 are presented below. The results of operations for interim periods may not be indicative of future results.

Overview. Net income for the nine months ended September 30, 2023 was $2.8 million compared to net loss of ($20.8) million for the nine months ended September 30, 2022. Earnings per basic and diluted share was $0.12 for the nine months ended September 30, 2023 compared to loss per basic and diluted share of ($0.92) for nine months ended September 30, 2022. The $23.6 million increase of net income for the nine months ended September 30, 2023 was due to decreases of $19.3 million in non-interest expenses and $10.1 million in provision for loan losses and an increase of $3.0 million in non-interest income, partially offset by an increase of a $6.3 million in provision for income taxes and a decrease of $2.4 million in net interest income.

The following table presents the results of operations for the periods indicated:

	For the Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	Dollars	Percent
	(Dollars in thousands)			
Interest and dividend income	$ 90,917	$ 57,819	$ 33,098	57.2 %
Interest expense	42,848	7,382	35,466	480.4 %
Net interest income	48,069	50,437	(2,368)	(4.7 %)
Provision for credit losses	1,348	11,405	(10,057)	(88.2 %)
Net interest income after provision for loan losses	46,721	39,032	7,689	19.7 %
Non-interest income	8,938	5,982	2,956	49.4 %
Non-interest expense	50,766	70,057	(19,291)	(27.5 %)
Income (loss) before income taxes	4,893	(25,043)	29,936	(119.5 %)
Provision (benefit) for income taxes	2,059	(4,256)	6,315	(148.4 %)
Net income (loss)	$ 2,834	$ (20,787)	$ 23,621	(113.6 %)
Earnings (loss) per share:				
Basic	$ 0.12	$ (0.92)	$ 1.04	(112.3 %)
Diluted	$ 0.12	$ (0.92)	$ 1.04	(112.3 %)

Interest and Dividend Income. Interest and dividend income increased $33.1 million, or 57.2%, to $90.9 million for the nine months ended September 30, 2023 from $57.8 million for the nine months ended September 30, 2022. Interest income on loans receivable, which is the Company's primary source of income, increased $16.7 million, or 32.5%, to $68.0 million for the nine months ended September 30, 2023 from $51.3 million for the nine months ended September 30, 2022. Interest and dividend income on securities and FHLBNY stock and deposits due from banks increased $16.4 million, or 252.5%, to $22.9 million for the nine months ended September 30, 2023 from $6.5 million for the nine months ended September 30, 2022.

The following table presents interest income on loans receivable for the periods indicated:

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)			
1-4 Family residential	$ 21,257	$ 15,173	$ 6,084	40.1%
Multifamily residential	19,705	12,445	7,260	58.3%
Nonresidential properties	11,476	9,089	2,387	26.3%
Construction and land	13,091	7,428	5,663	76.2%
Business loans	1,259	4,250	(2,991)	(70.4%)
Consumer loans	1,203	2,930	(1,727)	(58.9%)
Total interest income on loans receivable	$ 67,991	$ 51,315	$ 16,676	32.5%

The following table presents interest and dividend income on securities and FHLBNY stock and deposits due from banks for the periods indicated:

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)			
Interest on deposits due from banks	$ 3,982	$ 514	$ 3,468	674.7%
Interest on securities	17,627	5,779	11,848	205.0%
Dividend on FHLBNY stock	1,317	211	1,106	524.2%
Total interest and dividend income	$ 22,926	$ 6,504	$ 16,422	252.5%

Interest Expense. Interest expense increased $35.5 million, or 480.4%, to $42.8 million for the nine months ended September 30, 2023 from $7.4 million for the nine months ended September 30, 2022, primarily due to an increase in the average cost of funds.

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)			
Certificates of deposit	$ 11,468	$ 2,361	$ 9,107	385.7%
Money market	12,745	1,987	10,758	541.4%
Savings	88	120	(32)	(26.7%)
NOW/IOLA	25	43	(18)	(41.9%)
Advance payments by borrowers	6	4	2	50.0%
Borrowings	18,516	2,867	15,649	545.8%
Total interest expense	$ 42,848	$ 7,382	$ 35,466	480.4%

Net Interest Income. Net interest income decreased $2.4 million, or 4.7%, to $48.1 million for the nine months ended September 30, 2023 from $50.4 million for the nine months ended September 30, 2022. The $2.4 million decrease in net interest income for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was attributable to an increase of $35.5 million in interest expense due primarily to a higher average cost of funds on interest bearing liabilities, offset by an increase of $33.1 million in interest and dividend income primarily due to increases in average loans receivable, interest and dividend income on securities and FHLBNY stock and deposits due from banks.

Net interest rate spread decreased by 196 basis point to 1.66% for the nine months ended September 30, 2023 from 3.62% for the nine months ended September 30, 2022. The decrease in the net interest rate spread for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was primarily due to an increase in the average rates paid on interest-bearing liabilities of 244 basis points to 3.36% for the nine months ended September 30, 2023 from 0.92% for the nine months ended September 30, 2022 and an increase in the average yields on interest-earning assets of 48 basis points to 5.02% for the nine months ended September 30, 2023 from 4.54% for the nine months ended September 30, 2022.

Net interest margin decreased 131 basis points for the nine months ended September 30, 2023, to 2.65% from 3.96% for nine months ended September 30, 2022, reflecting an increase in cost of funds.

The Federal Reserve raised the target range for the federal funds rate by 25 basis points to 5.25%-5.50% during its July 26, 2023 meeting, pushing borrowing costs to the highest level in 22 years. The Federal Reserve has signaled that there will likely be additional federal funds interest rate increases. The recent increase and the anticipated increases are in response to inflation rising at a rate not seen in over 40 years. Because of this rising rate environment, the speed with which it is anticipated to be implemented, the significant competitive pressures in our markets and the potential negative impact of these factors on our deposit and loan pricing, our net interest margin may be negatively impacted. Our net interest income may also be negatively impacted if the demand for loans decreases due to the rate increases, alone or in tandem with the concurrent inflationary pressures. We may be negatively impacted if we are unable to appropriately time adjustments to our funding costs and the rates we earn on our loans.

Non-Interest Income. Non-interest income increased $3.0 million, or 49.4%, to $8.9 million for the nine months ended September 30, 2023 from $6.0 million for the nine months ended September 30, 2022. The increase in non-interest income for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was attributable to a grant of $3.7 million received in the third quarter of 2023 from the Treasury and an increase of $1.6 million in late and prepayment charges, partially offset by a decrease of $1.8 million in loan origination.

The following table presents non-interest income for the periods indicated:

	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022	Change Amount	Change Percent
	(Dollars in thousands)			
Service charges and fees	$ 1,488	$ 1,349	$ 139	10.3%
Brokerage commissions	67	840	$ (773)	(92.0%)
Late and prepayment charges	2,000	360	1,640	455.6%
Income on sale of mortgage loans	354	734	(380)	(51.8%)
Loan origination	—	1,843	(1,843)	(100.0%)
Grant income	3,718	—	3,718	—%
Loss on sale of premises and equipment	—	(436)	436	(100.0%)
Other	1,311	1,292	19	1.5%
Total non-interest income	$ 8,938	$ 5,982	$ 2,956	49.4%

Non-Interest Expense. Non-interest expense decreased $19.3 million, or 27.54%, to $50.8 million for the nine months ended September 30, 2023 from $70.1 million for the nine months ended September 30, 2022. The $19.3 million decrease in non-interest expense for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022 was attributable to $18.5 million of Grain consumer microloan write-offs during the corresponding period last year compared with $1.3 million of Grain consumer microloan recoveries recognized during the current period. The decrease in non-interest expense was also impacted by a $5.0 million contribution to the Ponce De Leon Foundation during the corresponding period last year, partially offset by increases of $1.3 million in provision for contingencies, $1.3 million in data processing expenses, $1.0 million in compensation and benefits and $0.7 million in professional fees.

The following table presents non-interest expense for the periods indicated:

	For the Nine Months Ended September 30, 2023	2022	Change Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 22,437	$ 21,413	$ 1,024	4.8 %
Occupancy and equipment	10,882	10,040	842	8.4 %
Data processing expenses	3,982	2,665	1,317	49.4 %
Direct loan expense	1,126	2,033	(907)	(44.6 %)
Provision for contingencies	1,893	566	1,327	234.5 %
Insurance and surety bond premiums	768	600	168	28.0 %
Office supplies, telephone and postage	1,189	1,180	9	0.8 %
Professional fees	5,052	4,333	719	16.6 %
Contribution to the Ponce De Leon Foundation	—	4,995	(4,995)	(100.0 %)
Grain (recoveries) write-off	(1,329)	18,455	(19,784)	(107.2 %)
Marketing and promotional expenses	679	337	342	101.5 %
Directors' fees and regulatory assessment	484	509	(25)	(4.9 %)
Other operating expenses	3,603	2,931	672	22.9 %
Total non-interest expense	$ 50,766	$ 70,057	$ (19,291)	(27.5 %)

Income Tax (Benefit) Provision. The Company had a provision for income taxes of $2.1 million for the nine months ended September 30, 2023 compared to a benefit for income taxes of $4.3 million for nine months ended September 30, 2022.

Average Balance Sheets

The following table sets forth average outstanding balances, average yields and rates, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. Average balances are derived from average daily balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Nine Months Ended September 30,					
	2023			2022		
	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)
	(Dollars in thousands)					
Interest-earning assets:						
Loans (2)	$1,678,369	67,991	5.42 %	$1,341,151	$ 51,315	5.12 %
Securities (3)	614,987	17,627	3.83 %	263,421	5,778	2.93 %
Other (4) (5)	127,961	5,299	5.54 %	96,623	726	1.00 %
Total interest-earning assets	2,421,317	90,917	5.02 %	1,701,195	57,819	4.54 %
Non-interest-earning assets (5)	118,609			136,650		
Total assets	$2,539,926			$1,837,845		
Interest-bearing liabilities:						
NOW/IOLA	$ 22,828	$ 25	0.15 %	$ 31,769	$ 43	0.18 %
Money market (6)	403,171	12,745	4.23 %	344,361	1,986	0.77 %
Savings	123,218	88	0.10 %	137,808	120	0.12 %
Certificates of deposit (6)	522,740	11,468	2.93 %	398,661	2,361	0.79 %
Total deposits	1,071,957	24,326	3.03 %	912,599	4,510	0.66 %
Advance payments by borrowers	14,814	6	0.05 %	11,033	5	0.06 %
Borrowings	617,912	18,516	4.01 %	152,084	2,867	2.52 %
Total interest-bearing liabilities	1,704,683	42,848	3.36 %	1,075,716	7,382	0.92 %
Non-interest-bearing liabilities:						
Non-interest-bearing demand	298,148	—		350,871	—	
Other non-interest-bearing liabilities	43,864	—		43,606	—	
Total non-interest-bearing liabilities	342,012	—		394,477	—	
Total liabilities	2,046,695	42,848		1,470,193	7,382	
Total equity	493,231			367,652		
Total liabilities and total equity	$2,539,926		3.36 %	$1,837,845		0.92 %
Net interest income		$ 48,069			$ 50,437	
Net interest rate spread (7)			1.66 %			3.62 %
Net interest-earning assets (8)	$ 716,634			$ 625,479		
Net interest margin (9)			2.65 %			3.96 %
Average interest-earning assets to interest-bearing liabilities			142.04 %			158.15 %

(1)Annualized where appropriate.

(2)Loans include loans and mortgage loans held for sale, at fair value.

(3)Securities include available-for-sale securities and held-to-maturity securities.

(4)Includes FHLBNY demand account and FHLBNY stock dividends and FRBNY demand deposits.

(5)FRBNY demand deposits for prior period have been reclassified for consistency.

(6)Includes reclassification of $12.2 million average outstanding balances and $0.2 million of interest expenses from money market to certificates of deposit for the nine months ended September 30, 2022.

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

(8)Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

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

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on the Company's net interest income for the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Nine Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans (1)	$ 12,903	$ 3,773	$ 16,676
Securities (2)	7,711	4,138	11,849
Other	235	4,338	4,573
Total interest-earning assets	20,849	12,249	33,098
Interest-bearing liabilities:			
NOW/IOLA	(11)	(6)	(17)
Money market	340	10,420	10,760
Savings	(13)	(19)	(32)
Certificates of deposit	735	8,372	9,107
Total deposits	1,051	18,767	19,818
Borrowings	8,782	6,867	15,649
Total interest-bearing liabilities	9,833	25,634	35,467
Change in net interest income	$ 11,016	$ (13,385)	$ (2,369)

(1) Loans include loans and mortgage loans held for sale, at fair value.
(2) Securities include available-for-sale securities and held-to-maturity securities.

Management of Market Risk

General. The most significant form of market risk is interest rate risk because, as a financial institution, the majority of the Bank's assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of its financial condition and results of operations to changes in market interest rates. The Bank's Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in the Bank's assets and liabilities, for determining the level of risk that is appropriate, given the business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with policies and guidelines approved by the Board of Directors. The Bank currently utilizes a third-party modeling solution that is prepared on a quarterly basis, to evaluate its sensitivity to changing interest rates, given the Bank's business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

In order to better manage its interest rate risk, on October 12, 2023 the Bank entered into two interest rate swap transactions with Goldman Sachs Bank USA. One interest rate swap is for a period of two years effective October 12, 2023 and terminates on November 1, 2025 with a notional amount of $150.0 million. The Bank will pay a fixed rate of interest of 4.885% and receive the SOFR rate. The other interest rate swap is for a period of three years effective October 12, 2023 and terminates on November 1, 2026 with a notional amount of $100.0 million. The Bank will pay a fixed rate of interest of 4.62% and receive the SOFR rate.

Net Interest Income Simulation Models. Management utilizes a respected, sophisticated third party designed asset liability modeling software that measures the Bank's earnings through simulation modeling. Earning assets, interest-bearing liabilities and off-balance sheet financial instruments are combined with forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations over that same 12-month period. To limit interest rate risk, the Bank has policy guidelines for earnings risk which seek to limit the variance of net interest income in both gradual and instantaneous changes to interest rates. As of September 30, 2023, in the event of an instantaneous upward and downward change in rates from management's interest rate forecast over the next twelve months, assuming a static balance sheet, the following estimated changes are calculated:

Rate Shift [(1)]	Net Interest Income Year 1 Forecast (Dollars in thousands)	Year 1 Change from Level
+400	$ 52,670	(20.48%)
+300	56,037	(15.39%)
+200	59,438	(10.26%)
+100	62,864	(5.09%)
Level	66,232	— %
-100	69,788	5.37%
-200	72,469	9.42%
-300	74,630	12.68%
-400	76,354	15.28%

(1)Assumes an instantaneous uniform change in interest rates at all maturities.

Although an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, management believes that a gradual shift in interest rates would have a more modest impact. Further, the earnings simulation model does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could alter any potential adverse impact of changes in interest rates.

The behavior of the deposit portfolio in the baseline forecast and in alternate interest rate scenarios set out in the table above is a key assumption in the projected estimates of net interest income. The projected impact on net interest income in the table above assumes no change in deposit portfolio size or mix from the baseline forecast in alternative rate environments. In higher rate scenarios, any customer activity resulting in the replacement of low-cost or noninterest-bearing deposits with higher-yielding deposits or market-based funding would reduce the benefit in those scenarios.

At September 30, 2023, the earnings simulation model indicated that the Bank was in compliance with the Board of Directors approved Interest Rate Risk Policy.

Economic Value of Equity Model. While earnings simulation modeling attempts to determine the impact of a changing rate environment to net interest income, the Economic Value of Equity Model ("EVE") measures estimated changes to the economic values of assets, liabilities and off-balance sheet items as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case EVE. Rates are then shocked as prescribed by the Interest Rate Risk Policy to measure the sensitivity in EVE values for each of those shocked rate scenarios versus the base case. The Interest Rate Risk Policy sets limits for those sensitivities. At September 30, 2023, the EVE modeling calculated the following estimated changes in EVE due to instantaneous upward and downward changes in rates:

		Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) [(1)]	Estimated EVE [(2)]	Amount	Percent	EVE Ratio [(4)]	Increase (Decrease) (basis points)
		(Dollars in thousands)			
+400	$ 410,522	$ (84,260)	(17.03%)	17.25%	(1,703)
+300	434,261	(60,521)	(12.23%)	17.88%	(1,223)
+200	458,948	(35,834)	(7.24%)	18.52%	(724)
+100	484,525	(10,257)	(2.07%)	19.16%	(207)
Level	494,782	—	—%	19.28%	—
-100	532,818	38,036	7.69%	20.24%	769
-200	554,253	59,471	12.02%	20.64%	1,202
-300	572,245	77,463	15.66%	20.90%	1,566
-400	605,075	110,293	22.29%	21.55%	2,229

(1)Assumes an instantaneous uniform change in interest rates at all maturities.

(2)EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3)Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4)EVE Ratio represents EVE divided by the present value of assets.

Although an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, management believes that a gradual shift in interest rates would have a more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could alter the adverse impact of changes in interest rates.

At September 30, 2023, the EVE model indicated that the Bank was in compliance with the Board of Directors’ approved Interest Rate Risk Policy.

Most Likely Earnings Simulation Models. Management also analyzes a most-likely earnings simulation scenario that projects the expected change in rates based on a forward yield curve adopted by management using expected balance sheet volumes forecasted by management. Separate growth assumptions are developed for loans, investments, deposits, etc. Other interest rate scenarios analyzed by management may include delayed rate shocks, yield curve steepening or flattening, or other variations in rate movements to further analyze or stress the balance sheet under various interest rate scenarios. Each scenario is evaluated by management and weighted to determine the most likely result. These processes assist management to better anticipate financial results and, as a result, management may determine the need to review other operating strategies and tactics which might enhance results or better position the balance sheet to reduce interest rate risk going forward.

Each of the above analyses may not, on its own, be an accurate indicator of how net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. The Asset/Liability Committee reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing and capital policies.

Management's model governance, model implementation and model validation processes and controls are subject to review in the Bank’s regulatory examinations to ensure they are in compliance with the most recent regulatory guidelines and industry and regulatory practices. Management utilizes a respected, sophisticated third party designed asset liability modeling software to help ensure implementation of management's assumptions into the model are processed as intended in a robust manner. That said, there are numerous assumptions regarding financial instrument behaviors that are integrated into the model. The assumptions are formulated by combining observations gleaned from the Bank’s historical studies of financial instruments and the best estimations of how, if at all, these instruments may behave in the future given changes in economic conditions, technology, etc. These assumptions may prove to be inaccurate. Additionally, given the large number of assumptions built into Bank’s asset liability modeling software, it is difficult, at best, to compare its results to other banks.

The Asset/Liability Management Committee may determine that the Company should over time become more or less asset or liability sensitive depending on the underlying balance sheet circumstances and its conclusions regarding interest rate fluctuations in future periods. The historically low benchmark federal funds interest rate of the last several years implemented in response the turmoil resulting from COVID-19 pandemic has ended. The Federal Reserve Board increased the benchmark federal funds interest rate by 25 basis points to 5.25% - 5.50% at its July 26, 2023 meeting. The Federal Reserve Board has signaled that there will likely be additional federal funds interest rate increases. The recent increase and the anticipated increases are in response to inflation rising at a rate not seen in over 40 years. Because of this rising rate environment, the speed with which it is anticipated to be implemented, the significant competitive pressures in our markets and the potential negative impact of these factors on our deposit and loan pricing, our net interest margin may be negatively impacted. Our net interest income may also be negatively impacted if the demand for loans decreases due to the rate increases, alone or in tandem with the concurrent inflationary pressures. We may be negatively impacted if we are unable to appropriately time adjustments to our funding costs and the rates we earn on our loans.

GAP Analysis. In addition, management analyzes interest rate sensitivity by monitoring the Bank’s interest rate sensitivity "gap." The interest rate sensitivity gap is the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest bearing-liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets maturing or repricing during a period exceeds the amount of interest rate sensitive liabilities maturing or repricing during the same period, and a gap is considered negative when the amount of interest rate sensitive liabilities maturing or repricing during a period exceeds the amount of interest rate sensitive assets maturing or repricing during the same period.

The following table sets forth the Company’s interest-earning assets and its interest-bearing liabilities at September 30, 2023, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at September 30, 2023, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	September 30, 2023 Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
	(Dollars in thousands)								
Assets:									
Interest-bearing deposits in banks	$ 90,966	$ 90,966	$ 90,966	$ 90,966	$ 90,966	$ —	$ 90,966	$ 26,046	$ 117,012
Securities [1]	42,634	65,368	111,196	209,635	372,175	242,723	614,898	(27,080)	587,818
Placements with banks	996	996	996	996	996	—	996	—	996
Net loans (includes LHFS)	144,430	238,356	407,607	806,086	1,699,918	112,047	1,811,965	(10,255)	1,801,710
FHLBNY stock	—	—	—	—	—	—	—	18,870	18,870
Other assets	—	—	—	—	—	—	—	97,457	97,457
Total	$ 279,026	$ 395,686	$ 610,765	$ 1,107,683	$ 2,164,055	$ 354,770	$ 2,518,825	$ 105,038	$ 2,623,863
Liabilities:									
Non-maturity deposits	$ 38,196	$ 76,392	$ 152,784	$ 305,567	$ 570,945	$ 69,266	640,211	$ 219,210	$ 859,421
Certificates of deposit	203,757	303,167	388,752	447,546	541,711	—	541,711	—	541,711
Borrowings	—	204,000	304,000	354,000	625,100	50,000	675,100	—	675,100
Other liabilities	—	—	—	—	—	—	—	62,573	62,573
Total liabilities	241,953	583,559	845,536	1,107,113	1,737,756	119,266	1,857,022	281,783	2,138,805
Capital	—	—	—	—	—	—	—	485,058	485,058
Total liabilities and capital	$ 241,953	$ 583,559	$ 845,536	$ 1,107,113	$ 1,737,756	$ 119,266	$ 1,857,022	$ 766,841	$ 2,623,863
Asset/liability gap	$ 37,073	$ (187,873)	$ (234,771)	$ 570	$ 426,299	$ 235,504	$ 661,803		
Gap/assets ratio	115.32 %	67.81 %	72.23 %	100.05 %	124.53 %	297.46 %	135.64 %		

(1)Includes available-for-sale securities and held-to-maturity securities.

The following table sets forth the Company’s interest-earning assets and its interest-bearing liabilities at December 31, 2022, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2022, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	December 31, 2022 Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
	(Dollars in thousands)								
Assets:									
Interest-bearing deposits in banks	$ 20,286	$ 20,286	$ 20,286	$ 20,286	$ 20,286	$ —	$ 20,286	$ 34,074	$ 54,360
Securities (1)	21,817	56,680	87,373	185,290	442,280	224,760	667,040	(26,715)	640,325
Placement with banks	1,494	1,494	1,494	1,494	1,494	—	1,494	—	1,494
Net loans (includes LHFS)	146,397	239,265	372,573	560,220	1,400,720	111,402	1,512,122	(17,016)	1,495,106
FHLBNY stock	24,665	24,665	24,665	24,665	24,665	—	24,665	(4)	24,661
Other assets	—	—	—	—	—	—	—	96,043	96,043
Total	$ 214,659	$ 342,390	$ 506,391	$ 791,955	$ 1,889,445	$ 336,162	$ 2,225,607	$ 86,382	$ 2,311,989
Liabilities:									
Non-maturity deposits	$ 31,380	$ 62,760	$ 43,848	$ 169,369	$ 476,959	$ 73,985	$ 550,944	$ 243,178	$ 794,122
Certificates of deposit	59,736	103,461	278,011	327,468	458,290	—	458,290	—	458,290
Borrowings	159,600	177,375	184,375	234,375	467,375	50,000	517,375	—	517,375
Other liabilities	—	—	—	—	—	—	—	49,502	49,502
Total liabilities	250,716	343,596	506,234	731,212	1,402,624	123,985	1,526,609	292,680	1,819,289
Capital	—	—	—	—	—	—	—	492,700	492,700
Total liabilities and capital	$ 250,716	$ 343,596	$ 506,234	$ 731,212	$ 1,402,624	$ 123,985	$ 1,526,609	$ 785,380	$ 2,311,989
Asset/liability gap	$ (36,057)	$ (1,206)	$ 157	$ 60,743	$ 486,821	$ 212,177	$ 698,998		
Gap/assets ratio	85.62 %	99.65 %	100.03 %	108.31 %	134.71 %	271.13 %	145.79 %		

(1)Includes available-for-sale securities and held-to-maturity securities.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and EVE tables presented assume that the composition of the interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and EVE tables provide an indication of the interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and EVE and will differ from actual results. Furthermore, 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. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes the ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's customers and to fund current and future planned expenditures. The primary sources of funds are deposits, principal and interest payments on loans and available-for-sale securities and proceeds from the sale of loans. The Bank also has access to borrow from the FHLBNY and the FRBNY. At September 30, 2023 and December 31, 2022, the Bank had $675.1 million and $517.4 million, respectively, of term and overnight outstanding advances from the FHLBNY and the FRBNY, and also had a guarantee from the FHLBNY through letters of credit of up to $1.0 million as of September 30, 2023 and $21.5 million as of December 31, 2022. At September 30, 2023 and December 31, 2022, there was eligible collateral of approximately $853.6 million and $478.8 million, respectively, in mortgage loans available to secure advances from the FHLBNY. The Bank also has two unsecured lines of credit of $75.0 million and $90.0 million, respectively, with two correspondent banks, of which there was none outstanding at September 30, 2023 and December 31, 2022. The Bank did not have any outstanding securities sold under repurchase agreements with brokers as of September 30, 2023 and December 31, 2022.

Although maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition. The most liquid assets are cash and interest-bearing deposits in banks. The levels of these assets are dependent on operating, financing, lending, and investing activities during any given period.

Net cash (used in) provided by operating activities was ($25.4) million and $14.2 million for the nine months ended September 30, 2023 and 2022, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations, purchases of new securities, and purchase of equipment offset by principal collections on loans and proceeds from maturities, calls and principal repayments on securities was ($207.3) million and ($641.1) million for the nine months ended September 30, 2023 and 2022, respectively. Net cash provided by financing activities, consisting of activities in borrowing and deposit accounts, was $295.4 million and $535.5 million for the nine months ended September 30, 2023 and 2022, respectively.

The Bank's management took steps to enhance the Company's liquidity position by increasing its on balance sheet cash and cash equivalents position in order to meet unforeseen liquidity events and to fund upcoming funding needs.

At September 30, 2023 and December 31, 2022, all regulatory capital requirements were met, resulting in the Company and the Bank being categorized as well capitalized at September 30, 2023 and December 31, 2022. Management is not aware of any conditions or events that would change this categorization.

Material Cash Requirements

Commitments. As a financial services provider, the Company routinely is a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. Although these contractual obligations represent the Company's future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans originated. At September 30, 2023 and December 31, 2022, the Company had outstanding commitments to originate loans and extend credit of $507.3 million and $281.3 million, respectively.

It is anticipated that the Company will have sufficient funds available to meet its current lending commitments. Certificates of deposit that are scheduled to mature in 2023 totaled $203.7 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits are not retained, the Company may utilize FHLBNY advances, unsecured credit lines with correspondent banks, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

The Company adopted a share repurchase program effective May 16, 2023 which was completed in August 2023. Under the repurchase program, the Company was authorized to repurchase up to 1,235,000 shares of the Company's stock or approximately 5% of the Company's then current issued and outstanding shares. During the nine months ended September 30, 2023, the Company repurchased a total of 1,235,000 shares of the Company's common stock. As of September 30, 2023 and December 31, 2022, 1,233,111 shares and 1,976 shares, respectively, were held as treasury stock as a result of share buy-back and restricted stock units vested during 2023 and restricted stock units vested during 2022, respectively.

Contractual Obligations. In the ordinary course of its operations, the Company enters into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities. There have been no material changes in the Company’s material cash requirements under its contractual obligations as discussed in its most recent annual report on Form 10-K.

Other Material Cash Requirements. In addition to contractual obligations, the Company’s material cash requirements also includes compensation and benefits expenses for its employees, which were $22.4 million for the nine months ended September 30, 2023. The Company also has material cash requirements for occupancy and equipment expenses, excluding depreciation and amortization of $1.4 million, related to rental expenses, general maintenance and cleaning supplies, guard services, software licenses and other miscellaneous expenses, which were $9.5 million for the nine months ended September 30, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included in Part I, Item 2 of this report under “Management of Market Risk”.

Item 4. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2023. Based on that evaluation, the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant’s disclosure controls and procedures were effective.

During the nine months ended September 30, 2023, there were no changes in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceeding occurring in the ordinary course of business. At September 30, 2023, the Company was not involved in any legal proceedings the outcome of which management believes would be material to its financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors and other cautionary statements described under the heading "Item 1A. Risk Factors" included in our 2022 Form 10-K and the risk factors and other cautionary statements contained in our other SEC filings, which could materially affect our businesses, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. There have been no material changes in our Risk Factors from those disclosed in Item 1A of our 2022 Form 10-K or our other SEC filings.

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

The following table set forth information regarding the shares of common stock repurchased by the Company during the three months ended September 30, 2023:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2023 - July 31, 2023	546,553	$ 9.30	1,162,501	72,499
August 1, 2023 - August 31, 2023	72,499	$ 9.61	1,235,000	—
September 1, 2023 - September 30, 2023	—	$ —	—	—
Total	**619,052**	**$ 9.33**		

The Company repurchased 619,052 shares of its common stock at an aggregate cost of $5.8 million during the three months ended September 30, 2023.

The Company adopted a share repurchase program effective May 16, 2023 which was completed in August 2023. Under the repurchase program, the Company was authorized to repurchase up to 1,235,000 shares of the Company's stock or approximately 5% of the Company's then current issued and outstanding shares.

As of September 30, 2023, the Company had repurchased a total of 1,235,000 shares under the repurchase programs at a weighted average price of $8.91 per share, which were included in the 1,233,111 shares reported as treasury stock. There were $3,865 shares issued from the treasury stock in the third quarter of 2023 in relation to vesting of restricted stock units. Also included in the 1,233,111 shares held as treasury stock are 1,976 shares related to restricted stock units vested during 2022.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Ponce Financial Group, Inc. (attached as Exhibit 3.1 to the Registrant's Form S-1 (File No. 333-258394) filed with the Commission on August 3, 2021).
3.2	Bylaws of Ponce Financial Group, Inc. (attached as Exhibit 3.2 to the Registrant's Form S-1 (File No. 333-258394) filed with the Commission on August 3, 2021).
3.3	Articles Supplementary to the Charter of Ponce Financial Group, Inc. (attached as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-41255) filed with the Commission on June 9, 2022).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*** Filed herewith.**

Table of Contents

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.

Ponce Financial Group, Inc.
(Registrant)

Date: November 9, 2023	By: /s/ Carlos P. Naudon **Carlos P. Naudon** **President and Chief Executive Officer**
Date: November 9, 2023	By: /s/ Sergio J. Vaccaro **Sergio J. Vaccaro** **Executive Vice President and Chief Financial Officer**

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Carlos P. Naudon, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Ponce Financial Group, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4.The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

(a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 9, 2023

By: /s/ Carlos P. Naudon
Carlos P. Naudon
President
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sergio J. Vaccaro, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Ponce Financial Group, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4.The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

(a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 9, 2023	By: /s/ Sergio J. Vaccaro **Sergio J. Vaccaro** **Executive Vice President** **Chief Financial Officer**

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ponce Financial Group, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2023

By: /s/ Carlos P. Naudon
Carlos P. Naudon
President
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ponce Financial Group, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2023	By: /s/ Sergio J. Vaccaro **Sergio J. Vaccaro** **Executive Vice President** **Chief Financial Officer**