

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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: 001-40589

NorthEast Community Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

86-3173858
(I.R.S. Employer Identification Number)

325 Hamilton Avenue
White Plains, New York 10601
(Address of Principal Executive Offices)

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

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		NECB	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, a 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 August 8, 2023, there were 14,969,938 shares of the registrant's common stock outstanding.

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PART I—FINANCIAL INFORMATION**Item 1. Financial Statements**

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	June 30, 2023	December 31, 2022
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and amounts due from depository institutions	\$ 14,345	\$ 13,210
Interest-bearing deposits	<u>105,530</u>	<u>82,098</u>
Total cash and cash equivalents	119,875	95,308
Certificates of deposit	100	100
Equity securities	18,143	18,041
Securities available-for-sale, at fair value	-	1
Securities held-to-maturity (net of allowance for credit losses of \$135, fair value of \$12,818 and \$22,865, respectively)	15,777	26,395
Loans receivable	1,391,543	1,217,321
Deferred loan costs, net	243	372
Allowance for credit losses	<u>(4,400)</u>	<u>(5,474)</u>
Net loans	1,387,386	1,212,219
Premises and equipment, net	25,646	26,063
Investments in restricted stock, at cost	929	1,238
Bank owned life insurance	24,772	25,896
Accrued interest receivable	10,532	8,597
Goodwill	200	200
Real estate owned	1,456	1,456
Property held for investment	1,426	1,444
Right of Use Assets – Operating	2,055	2,312
Right of Use Assets – Financing	353	355
Other assets	7,002	5,338
Total assets	<u>\$ 1,615,652</u>	<u>\$ 1,424,963</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 329,236	\$ 376,302
Interest bearing	<u>986,580</u>	<u>745,653</u>
Total deposits	1,315,816	1,121,955
Advance payments by borrowers for taxes and insurance	2,153	2,369
	14,000	21,000
Federal Home Loan Bank advances		
Lease Liability – Operating	2,109	2,363
Lease Liability – Financing	552	533
Accounts payable and accrued expenses	11,462	14,754
Total liabilities	<u>1,346,092</u>	<u>1,162,974</u>

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (continued)
(Unaudited)

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
	(In thousands, except share and per share amounts)	
Stockholders' equity:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued or outstanding	\$ —	\$ —
Common stock, \$0.01 par value; 75,000,000 shares authorized; 15,036,938 shares and 16,049,454 shares issued and outstanding, respectively	150	161
Additional paid-in capital	123,054	136,434
Unearned Employee Stock Ownership Plan ("ESOP") shares	(6,997)	(7,432)
Retained earnings	153,182	132,670
Accumulated other comprehensive income	171	156
Total stockholders' equity	269,560	261,989
Total liabilities and stockholders' equity	\$ 1,615,652	\$ 1,424,963

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except per share amounts)			
INTEREST INCOME:				
Loans	\$ 30,494	\$ 14,412	\$ 58,069	\$ 27,473
Interest-earning deposits	219	249	452	304
Securities	1,001	177	1,705	335
Total Interest Income	31,714	14,838	60,226	28,112
INTEREST EXPENSE:				
Deposits	7,609	1,160	13,161	2,337
Borrowings	78	127	190	288
Financing lease	9	9	19	19
Total Interest Expense	7,696	1,296	13,370	2,644
Net Interest Income	24,018	13,542	46,856	25,468
Provision for credit loss	610	-	611	-
Net Interest Income after Provision for Credit Loss	23,408	13,542	46,245	25,468
NON-INTEREST INCOME:				
Other loan fees and service charges	447	627	1,054	1,018
Gain on disposition of equipment	-	46	-	46
Earnings on bank owned life insurance	553	150	704	297
Investment advisory fees	113	120	229	257
Unrealized gain (loss) on equity securities	(123)	(430)	102	(1,064)
Other	30	23	46	40
Total Non-Interest Income	1,020	536	2,135	594
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,837	3,613	9,378	7,441
Occupancy expense	605	562	1,274	1,166
Equipment	300	276	604	566
Outside data processing	554	479	1,069	915
Advertising	238	51	288	105
Real estate owned expense	21	21	41	52
Other	2,326	2,005	4,417	3,982
Total Non-Interest Expenses	8,881	7,007	17,071	14,227
INCOME BEFORE PROVISION FOR INCOME TAXES	15,547	7,071	31,309	11,835
PROVISION FOR INCOME TAXES	4,460	1,678	8,978	2,797
NET INCOME	\$ 11,087	\$ 5,393	\$ 22,331	\$ 9,038
EARNINGS PER COMMON SHARE – BASIC	\$ 0.75	\$ 0.35	\$ 1.56	\$ 0.58
EARNINGS PER COMMON SHARE – DILUTED	0.75	0.35	1.56	0.58
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	14,700	15,544	14,322	15,534
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	14,731	15,544	14,361	15,534

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Net Income	\$ 11,087	\$ 5,393	\$ 22,331	\$ 9,038
Other comprehensive income:				
Defined benefit pension:				
Reclassification adjustments out of accumulated other comprehensive income:				
Amortization of actuarial loss (gain)	(8)	6	(16)	13
Actuarial loss arising during period	18	23	36	40
Total	10	29	20	53
Income tax effect ¹	(2)	(7)	(5)	(12)
Total other comprehensive income	8	22	15	41
Total Comprehensive Income	<u>\$ 11,095</u>	<u>\$ 5,415</u>	<u>\$ 22,346</u>	<u>\$ 9,079</u>

¹Amounts are included in provision for income taxes in the consolidated statements of income.

See notes to interim unaudited consolidated financial statements.

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NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three and Six Months Ended June 30, 2023 and 2022
(Unaudited)

	Number of Shares, net	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total
(In thousands, except share and per share amounts)							
Balance – December 31, 2022	16,049,454	\$ 161	\$ 136,434	\$ (7,432)	\$ 132,670	\$ 156	\$ 261,989
Net income	—	—	—	—	11,244	—	11,244
Other comprehensive income	—	—	—	—	—	7	7
Cash dividend declared (\$0.06 per share)	—	—	—	—	(875)	—	(875)
Stock repurchases	(723,626)	(8)	(10,514)	—	—	—	(10,522)
Compensation expense related to restricted stock awards	—	—	241	—	—	—	241
Compensation expense related to stock options	—	—	192	—	—	—	192
Cumulative effect of adoption of ASU 2016-13	—	—	—	—	(99)	—	(99)
ESOP shares earned	—	—	109	217	—	—	326
Balance - March 31, 2023	15,325,828	\$ 153	\$ 126,462	\$ (7,215)	\$ 142,940	\$ 163	\$ 262,503
Net income	—	—	—	—	11,087	—	11,087
Other comprehensive income	—	—	—	—	—	8	8
Cash dividend declared (\$0.06 per share)	—	—	—	—	(845)	—	(845)
Stock repurchases	(288,890)	(3)	(3,917)	—	—	—	(3,920)
Compensation expense related to restricted stock awards	—	—	241	—	—	—	241
Compensation expense related to stock options	—	—	192	—	—	—	192
ESOP shares earned	—	—	76	218	—	—	294
Balance – June 30, 2023	15,036,938	\$ 150	\$ 123,054	\$ (6,997)	\$ 153,182	\$ 171	\$ 269,560
(In thousands, except share and per share amounts)							
	Number of Shares, net	Common Stock	Additional Paid- in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance – December 31, 2021	16,377,936	\$ 164	\$ 145,335	\$ (8,301)	\$ 114,323	\$ (139)	\$ 251,382
Net income	—	—	—	—	3,645	—	3,645
Other comprehensive income	—	—	—	—	—	19	19
Cash dividend declared (\$0.06 per share)	—	—	—	—	(931)	—	(931)
ESOP shares earned	—	—	41	217	—	—	258
Balance - March 31, 2022	16,377,936	\$ 164	\$ 145,376	\$ (8,084)	\$ 117,037	\$ (120)	\$ 254,373
Net income	—	—	—	—	5,393	—	5,393
Other comprehensive income	—	—	—	—	—	22	22
Cash dividend declared (\$0.06 per share)	—	—	—	—	(3,722)	—	(3,722)
ESOP shares earned	—	—	28	218	—	—	246
Balance - June 30, 2022	16,377,936	\$ 164	\$ 145,404	\$ (7,866)	\$ 118,708	\$ (98)	\$ 256,312

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 22,331	\$ 9,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of securities premiums and discounts, net	17	(8)
Provision for credit losses	611	-
Depreciation	634	599
Net amortization of deferred loan fees and costs	193	277
Deferred income tax benefit	(89)	(785)
Unrealized (gain) loss recognized on equity securities	(102)	1,064
Earnings on bank owned life insurance	(704)	(297)
Gain on dispositions of premises and equipment	-	(46)
ESOP compensation expense	620	504
Compensation expense related to stock options	384	-
Compensation expense related to restricted stock	482	-
Increase in accrued interest receivable	(1,935)	(949)
(Increase) decrease in other assets	(1,266)	280
Decrease in accounts payable - loan closing	(2,672)	(1,614)
Decrease in accounts payable and accrued expenses	(559)	(784)
	17,945	7,279
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Net increase in loans	(202,371)	(52,919)
Proceeds from sale of loans	26,286	2,053
Proceeds from bank owned life insurance	1,827	-
Principal repayments on securities available-for-sale	1	-
Principal repayments on securities held-to-maturity	10,467	737
Purchase of securities held-to-maturity	-	(10,038)
Redemptions of restricted stock	309	331
Purchases of premises and equipment	(217)	(2,861)
Net Cash Used in Investing Activities	(163,698)	(62,697)
Cash Flows from Financing Activities:		
Net increase in deposits	193,861	1,436
Repayment of FHLB of NY advances	(7,000)	(7,000)
Stock repurchases	(14,442)	-
Decrease in advance payments by borrowers for taxes and insurance	(216)	(147)
Cash dividends paid	(1,883)	(4,913)
Net Cash Provided by (Used in) Financing Activities	170,320	(10,624)
Net Increase (Decrease) in Cash and Cash Equivalents	24,567	(66,042)
Cash and Cash Equivalents – Beginning	95,308	152,269
Cash and Cash Equivalents – Ending	<u>\$ 119,875</u>	<u>\$ 86,227</u>

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
	(In thousands)	
Supplementary Cash Flows Information:		
Income taxes paid	\$ 10,936	\$ 2,635
Interest paid	\$ 13,232	\$ 2,592
Supplementary Disclosure of Non-Cash Investing and Financing Activities:		
Dividends declared and not paid	\$ 902	\$ 983

See notes to interim unaudited consolidated financial statements.

NORTHEAST COMMUNITY BANCORP, INC.
Notes to Condensed Consolidated Financial Statements
(Dollars in thousands, unless otherwise stated)
(Unaudited)

NORTHEAST COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

The following is a description of the Company's business and significant accounting and reporting policies:

Nature of Business:

Northeast Community Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in May 2021 to be the successor to NorthEast Community Bancorp, Inc., a federally chartered corporation (the "Mid-Tier Holding Company"), upon completion of the second-step conversion of NorthEast Community Bank (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. NorthEast Community Bancorp, MHC was the former mutual holding company for the Mid-Tier Holding Company prior to the completion of the second-step conversion. In conjunction with the second-step conversion, each of NorthEast Community Bancorp, MHC and the Mid-Tier Holding Company merged out of existence and now cease to exist. The second-step conversion was completed on July 12, 2021, at which time the Company sold, for gross proceeds of \$97.8 million, a total of 9,784,077 shares of common stock at \$10.00 per share. As part of the second-step conversion, each of the existing outstanding shares of Mid-Tier Holding Company common stock owned by persons other than NorthEast Community Bancorp, MHC was converted into 1.3400 shares of Company common stock. As a result of the second-step conversion, all share information has been subsequently revised to reflect the 1.3400 exchange ratio, unless otherwise noted.

The Bank is a New York State-chartered savings bank and the Company's primary activity is the ownership and operation of the Bank.

The Bank is headquartered in White Plains, New York. The Bank was founded in 1934 and is a community oriented financial institution dedicated to serving the financial services needs of individuals and businesses within its market area. The Bank currently conducts business through its eleven branch offices located in Bronx, New York, Orange, Rockland, and Sullivan Counties in New York and Essex, Middlesex and Norfolk Counties in Massachusetts and three loan production offices located in White Plains, New York, New City, New York, and Danvers, Massachusetts.

The Bank's principal business consists of originating primarily construction loans and, to a lesser extent, commercial and industrial loans and multifamily and mixed-use residential real estate loans and non-residential real estate loans. The Bank offers a variety of retail deposit products to the general public in the areas surrounding its main office and its branch offices, with interest rates that are competitive with those of similar products offered by other financial institutions operating in its market area. The Bank also utilizes borrowings as a source of funds. The Bank's revenues are derived primarily from interest on loans and, to a lesser extent, interest on investment securities and mortgage-backed securities. The Bank also generates revenues from other income including deposit fees, service charges and investment advisory fees.

The Bank also offers investment advisory and financial planning services under the name Harbor West Wealth Management Group, a division of the Bank, through a networking arrangement with a registered broker-dealer and investment advisor.

New England Commercial Properties LLC ("NECP"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. New England Commercial Properties, LLC currently owns one foreclosed property located in Pennsylvania.

NECB Financial Services Group, LLC ("NECB Financial"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in the third quarter of 2012 as a complement to Harbor West Wealth Management Group to sell life insurance and fixed rate annuities. NECB Financial is licensed in the States of New York and Connecticut.

72 West Eckerson LLC ("72 West Eckerson"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in April 2015 to facilitate the purchase or lease of real property by the Bank and currently owns the Bank branch locations in Spring Valley, New York and Monroe, New York.

166 Route 59 Realty LLC ("166 Route 59 Realty"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in April 2021 to facilitate the purchase or lease of real property by the Bank and currently owns the property for the Bank branch located in Airmont, New York.

3 Winterton Realty LLC, a New York limited liability company and wholly owned subsidiary of the Bank, was formed in October 2021 to facilitate the purchase or lease of real property by the Bank and currently owns the property for the Bank branch located in Bloomingburg, New York.

Principal of Consolidations:

The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank, NECP, NECB Financial, 72 West Eckerson, 166 Route 59 Realty, and 3 Winterton Realty LLC (collectively the "Company") and have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. The unaudited consolidated interim financial information should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2022.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year or any other period.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowance for credit losses, the review of the need for a valuation allowance of the Company's deferred tax assets and the fair value of financial instruments.

Accounting Pronouncements Adopted in 2023:

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 measures the credit loss associated with financial assets carried at amortized cost, including loan receivables, held-to-maturity debt securities, off balance sheet credit exposures.

The company adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet exposures. Results for reporting periods beginning after January 1, 2023 are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Upon adoption, we recorded a cumulative-effect adjustment totaling \$134,000, or \$99,000, net of tax, to reduce

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retained earnings. The transition adjustment includes the adoption and changes to the three applicable components of the allowance for credit losses ("ACL"): a decrease of \$1.6 million in the allowance for credit losses related to loans, an increase of \$132,000 in the allowance for credit losses related to held-to-maturity debt securities, and an increase of \$ 1.6 million in the allowance for credit losses related to off-balance sheet items.

The following table illustrates the impact of adopting ASC 326:

	January 1, 2023		
	Pre-adoption	Adoption Impact (In Thousands)	As Reported
Assets			
ACL on debt securities held-to-maturity			
Municipal Bonds	\$ -	\$ 132	\$ 132
ACL on loan receivables			
Residential real estate	528	895	1,423
Non-residential real estate	131	7	138
Construction	3,835	(2,086)	1,749
Commercial and industrial	955	(437)	518
Consumer	18	44	62
Unallocated	7	(7)	-
Liabilities			
ACL for off-balance sheet exposure	\$ -	\$ 1,586	\$ 1,586
	<u>\$ 5,474</u>	<u>\$ 134</u>	<u>\$ 5,608</u>

Allowance for Credit Losses - Loans

The allowance for credit losses related to loans is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses related to loans is measured on a collective (pool) basis when similar risk characteristics exist. If the risk characteristics of a loan change, such that they are no longer similar to other loans in the pool, the Company will evaluate the loan with a different pool of loans that share similar risk characteristics. If the loan does not share risk characteristics with other loans, the Company will evaluate the loan on an individual basis. The Company evaluates the pooling methodology at least annually. Loans are charged off against the allowance for credit losses related to loans when the Company believes the balances to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off or expected to be charged off.

The Company has chosen to segment its portfolio consistent with the manner in which it manages credit risk. Such segments include residential real estate, non-residential real estate, construction, commercial and industrial business, and consumer. For most segments the Company calculates estimated credit losses using a probability of default and loss given default methodology, the results of which are applied to each individual loan within the segment. The point in time probability of default and loss given default are then conditioned by macroeconomic scenarios to incorporate reasonable and supportable forecasts that affect the collectability of the reported amount.

The Company estimates the allowance for credit losses related to loans via a quantitative analysis which considers relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts. The Company evaluates a variety of factors including third party economic forecasts, industry trends and other available published economic information in arriving at its forecasts. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the renewal option is included in the original or modified contract at the reporting date and are not unconditionally cancelable by the Company.

Also included in the allowance for credit losses related to loans are qualitative reserves to cover losses that are expected but, in the Company's assessment, might not be adequately represented in the quantitative analysis or the forecasts described above. Factors that the Company considers include changes in lending policies and procedures, business conditions, the nature and size of the portfolio, portfolio concentrations, the volume and severity of past due loans and non-accrual loans, the effect of external factors such as competition, legal and regulatory requirements, among others. Qualitative loss factors are applied to each portfolio segment with the amounts judgmentally determined by the relative risk to the most severe loss periods identified in the historical loan charge-offs of the Company.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on the loan's disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, the loan's observable market price or, for collateral-dependent loans, the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. If the fair value of the collateral is less than the amortized cost basis of the loan, the Company will charge off the difference between the fair value of the collateral, less costs to sell at the reporting date and the amortized cost basis of the loan.

Allowance for Credit Losses – Held-to-Maturity Debt Securities

The allowance for credit losses related to held-to-maturity debt securities is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of held-to-maturity debt securities to present the net amount expected to be collected on the held-to-maturity debt securities. Losses, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL. When an investment is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

Allowance for Credit Losses Related to Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses related to off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Note 2 — Regulatory Capital

The Company and the Bank are subject to regulatory capital requirements promulgated by the federal banking agencies. The Federal Reserve establishes capital requirements, including well capitalized standards, for the consolidated bank holding company, and the FDIC has similar requirements for the Company's subsidiary bank. The Bank met all capital adequacy requirements to which it was subject as of June 30, 2023 and December 31, 2022.

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The following table presents information about the Bank's capital levels at the dates presented:

	Regulatory Capital Requirements						
	Actual		Minimum Capital Adequacy(1)		For Classification as Well-Capitalized		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	(Dollars in Thousands)
As of June 30, 2023:							
Total capital (to risk-weighted assets)	\$ 244,267	13.99 %	\$ ≥ 139,713	≥ 8.00 %	\$ ≥ 174,641	≥ 10.00 %	
Tier 1 capital (to risk-weighted assets)	238,291	13.64	≥ 104,785	≥ 6.00	≥ 139,713	≥ 8.00	
Common equity tier 1 capital (to risk-weighted assets)	238,291	13.64	≥ 78,589	≥ 4.50	≥ 113,517	≥ 6.50	
Core (Tier 1) capital (to adjusted total assets)	238,291	15.75	≥ 60,517	≥ 4.00	≥ 75,646	≥ 5.00	
As of December 31, 2022:							
Total capital (to risk-weighted assets)	\$ 222,728	13.66 %	\$ ≥ 130,429	≥ 8.00 %	\$ ≥ 163,036	≥ 10.00 %	
Tier 1 capital (to risk-weighted assets)	217,283	13.33	≥ 97,822	≥ 6.00	≥ 130,429	≥ 8.00	
Common equity tier 1 capital (to risk-weighted assets)	217,283	13.33	≥ 73,366	≥ 4.50	≥ 105,973	≥ 6.50	
Core (Tier 1) capital (to adjusted total assets)	217,283	16.50	≥ 52,687	≥ 4.00	≥ 65,858	≥ 5.00	

(1) Ratios do not include the capital conservation buffer.

Based on the most recent notification by the FDIC, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. There have been no conditions or events that have occurred since notification that management believes have changed the Bank's category.

Note 3—Equity Securities

The following table is the schedule of equity securities at June 30, 2023 and December 31, 2022. The equity securities consists of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing for low- and moderate-income borrowers and renters within our delineated lending areas, including those in majority minority census tracts.

	June 30,	December 31,
	2023	2022
	(In Thousands)	
Equity Securities, at Fair Value	\$ 18,143	\$ 18,041

The following is a summary of unrealized gain or loss recognized in net income on equity securities during the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In Thousands)		(In Thousands)	
Net (loss) gain recognized on equity securities during the period	\$ (123)	\$ (430)	\$ 102	\$ (1,064)
Less: Net losses realized on the sale of equity securities during the period	—	—	—	—
Unrealized net gain (loss) recognized on equity securities held at the reporting date	\$ (123)	\$ (430)	\$ 102	\$ (1,064)

Note 4—Securities Available-for-Sale

The Company's portfolio of securities available-for-sale totaled zero and \$1,000 at June 30, 2023 and December 31, 2022, respectively.

The following table is the schedule of securities available-for-sale at December 31, 2022:

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Loss	Fair Value
Mortgage-backed securities – residential:					
Federal Home Loan Mortgage Corporation	\$ 1	\$ —	\$ —	\$ —	\$ 1
	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

There were no sales of securities available-for-sale as of June 30, 2023 and December 31, 2022.

At June 30, 2023 and December 31, 2022, the Company had no unrealized loss.

Note 5—Securities Held-to-Maturity

The following table summarizes the Company's portfolio of securities held-to-maturity at June 30, 2023 and December 31, 2022.

	June 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Loss
Mortgage-backed securities – residential:					
Government National Mortgage Association	\$ 497	\$ —	\$ 20	\$ 477	\$ —
Federal Home Loan Mortgage Corporation	915	—	126	789	—
Federal National Mortgage Association	2,142	—	245	1,897	—
Collateralized mortgage obligations – GSE	2,953	—	581	2,372	—
Total mortgage-backed securities	6,507	—	972	5,535	—
Municipal Bonds	9,405	—	2,122	7,283	135
	<u>\$ 15,912</u>	<u>\$ —</u>	<u>\$ 3,094</u>	<u>\$ 12,818</u>	<u>\$ 135</u>
December 31, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Mortgage-backed securities – residential:					
Government National Mortgage Association	\$ 523	\$ —	\$ 18	\$ 505	
Federal Home Loan Mortgage Corporation	961	—	129	832	
Federal National Mortgage Association	2,308	—	250	2,058	
Collateralized mortgage obligations – GSE	3,043	—	506	2,537	
Total mortgage-backed securities	6,835	—	903	5,932	
Municipal Bonds	9,546	—	2,524	7,022	
U.S. Treasury securities	10,014	—	103	9,911	
	<u>\$ 26,395</u>	<u>\$ —</u>	<u>\$ 3,530</u>	<u>\$ 22,865</u>	

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Contractual final maturities of mortgage-backed securities and municipal bonds were as follows at June 30, 2023:

	June 30, 2023	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	\$ 544	\$ 468
Due after one but within five years	1,614	1,306
Due after five but within ten years	2,962	2,432
Due after ten years	10,792	8,612
	<u>\$ 15,912</u>	<u>\$ 12,818</u>

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

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

	Municipal Bonds
Balance – December 31, 2022	\$ -
Impact of adopting ASC 326	132
Provision for credit loss	4
Balance – March 31, 2023	<u>\$ 136</u>
Provision for credit loss	(1)
Balance – June 30, 2023	<u><u>\$ 135</u></u>

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The age of unrealized losses and the fair value of related securities held-to-maturity, for which an allowance for credit losses was not deemed necessary, were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
June 30, 2023:						
Mortgage-backed securities - residential:						
Government National Mortgage Association	\$ 197	\$ 5	\$ 280	\$ 15	\$ 477	\$ 20
Federal Home Loan Mortgage Corporation	—	—	789	126	789	126
Federal National Mortgage Association	—	—	1,897	245	1,897	245
Collateralized mortgage obligations – GSE	—	—	2,372	581	2,372	581
Total mortgage-backed securities	197	5	5,338	967	5,535	972
Municipal Bonds	—	—	7,283	2,122	7,283	2,122
	<u>\$ 197</u>	<u>\$ 5</u>	<u>\$ 12,621</u>	<u>\$ 3,089</u>	<u>\$ 12,818</u>	<u>\$ 3,094</u>
December 31, 2022:						
Mortgage-backed securities - residential:						
Government National Mortgage Association	\$ 505	\$ 18	\$ —	\$ —	\$ 505	\$ 18
Federal Home Loan Mortgage Corporation	—	—	824	129	824	129
Federal National Mortgage Association	478	33	1,580	217	2,058	250
Collateralized mortgage obligations – GSE	1,777	344	759	162	2,536	506
Total mortgage-backed securities	2,760	395	3,163	508	5,923	903
Municipal Bonds	444	39	6,579	2,485	7,023	2,524
U.S. Treasury securities	9,911	103	—	—	9,911	103
	<u>\$ 13,115</u>	<u>\$ 537</u>	<u>\$ 9,742</u>	<u>\$ 2,993</u>	<u>\$ 22,857</u>	<u>\$ 3,530</u>

At June 30, 2023, thirty-one mortgage-backed securities and six municipal bonds had unrealized loss due to interest rate volatility. Management concluded that the unrealized loss reflected above was temporary in nature since the unrealized loss was related primarily to market interest rates volatility, and not related to the underlying credit quality of the issuers of the securities. Additionally, the Company has the ability and intent to hold the securities for the time necessary to recover the amortized cost. At December 31, 2022, there were thirty-five mortgage-backed securities, six municipal bonds and two U.S. Treasury notes had unrealized loss due to interest rate volatility.

Credit Quality Indicators

The held to maturity securities portfolio consists of agency mortgage-backed securities and municipal bonds. All agency mortgage-backed securities are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The six municipal bonds in the portfolio carry no lower than A ratings from the rating agencies at June 30, 2023 and have a long history of no credit losses. The Company regularly monitors the municipal bonds sector of the market and reviews collectability including such factors as the financial condition of the issuers as well as credit ratings in effect as of the reporting period.

Note 6—Loans Receivable and the Allowance for Credit Losses

Loans are stated at unpaid principal balances plus net deferred loan origination fees and costs less an allowance for credit losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is

established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured with a reasonable expectation of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms. Net loan origination fees and costs are deferred and amortized into interest income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date. Prepayment penalties received on loans which pay in full prior to the scheduled maturity are included in interest income in the period the prepayment penalties are collected.

The composition of loans were as follows at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	(In Thousands)	
Residential real estate:		
One-to-four family	\$ 5,351	\$ 5,467
Multi-family	122,976	123,385
Mixed-use	28,890	21,902
Total residential real estate	157,217	150,754
Non-residential real estate	20,805	25,324
Construction	1,098,756	930,628
Commercial and industrial	114,035	110,069
Consumer	730	546
Total Loans	1,391,543	1,217,321
Deferred loan costs, net	243	372
Allowance for credit losses	(4,400)	(5,474)
	\$ 1,387,386	\$ 1,212,219

Loans serviced for the benefit of others totaled approximately \$ 34.4 million and \$22.4 million at June 30, 2023 and December 31, 2022, respectively. The value of mortgage servicing rights was not material at June 30, 2023 and December 31, 2022.

The allowance for credit losses on loans represents management's estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for credit losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for credit losses on loans is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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The following tables summarize the allocation of the allowance for credit losses based upon the calculation methodology described in Note 1, and loans receivable by loan class and credit loss method at June 30, 2023 and December 31, 2022:

At June 30, 2023:

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for credit losses:							
Ending balance	\$ 1,559	\$ 118	\$ 2,123	\$ 515	\$ 85	\$ —	\$ 4,400
Ending balance: individually evaluated for credit loss	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending balance: collectively evaluated for credit loss	\$ 1,559	\$ 118	\$ 2,123	\$ 515	\$ 85	\$ —	\$ 4,400
Loans receivable:							
Ending balance	\$ 157,217	\$ 20,805	\$ 1,098,756	\$ 114,035	\$ 730	\$ —	\$ 1,391,543
Ending balance: individually evaluated for credit loss	\$ —	\$ —	\$ 14,953	\$ —	\$ —	\$ —	\$ 14,953
Ending balance: collectively evaluated for credit loss	\$ 157,217	\$ 20,805	\$ 1,083,803	\$ 114,035	\$ 730	\$ —	\$ 1,376,590

At December 31, 2022:

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Ending balance	\$ 528	\$ 131	\$ 3,835	\$ 955	\$ 18	\$ 7	\$ 5,474
Ending balance: individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending balance: collectively evaluated for impairment	\$ 528	\$ 131	\$ 3,835	\$ 955	\$ 18	\$ 7	\$ 5,474
Loans receivable:							
Ending balance	\$ 150,754	\$ 25,324	\$ 930,628	\$ 110,069	\$ 546	\$ —	\$ 1,217,321
Ending balance: individually evaluated for impairment	\$ 855	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 855
Ending balance: collectively evaluated for impairment	\$ 149,899	\$ 25,324	\$ 930,628	\$ 110,069	\$ 546	\$ —	\$ 1,216,466

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The activity in the allowance for credit loss by loan class for the three and six months ended June 30, 2023 and 2022 was as follows:

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for credit losses:							
Balance - March 31, 2023	\$ 1,474	\$ 122	\$ 1,842	\$ 506	\$ 122	\$ —	\$ 4,066
Charge-offs	—	—	(159)	—	(35)	—	(194)
Recoveries	—	—	—	—	—	—	—
Provision (Benefit)	85	(4)	440	9	(2)	—	528
Balance - June 30, 2023	<u>\$ 1,559</u>	<u>\$ 118</u>	<u>\$ 2,123</u>	<u>\$ 515</u>	<u>\$ 85</u>	<u>\$ —</u>	<u>\$ 4,400</u>
Allowance for loan losses:							
Balance - March 31, 2022	\$ 510	\$ 340	\$ 3,392	\$ 958	\$ 17	\$ 111	\$ 5,328
Charge-offs	—	—	—	—	(7)	—	(7)
Recoveries	146	—	—	—	—	—	146
Provision (Benefit)	(110)	(142)	189	(93)	6	150	—
Balance - June 30, 2022	<u>\$ 546</u>	<u>\$ 198</u>	<u>\$ 3,581</u>	<u>\$ 865</u>	<u>\$ 16</u>	<u>\$ 261</u>	<u>\$ 5,467</u>
Allowance for credit losses:							
Balance - December 31, 2022	\$ 528	\$ 131	\$ 3,835	\$ 955	\$ 18	\$ 7	\$ 5,474
Impact of adopting ASC 326	895	7	(2,086)	(437)	44	(7)	(1,584)
Charge-offs	—	—	(159)	—	(56)	—	(215)
Recoveries	—	—	—	—	—	—	—
Provision (Benefit)	136	(20)	533	(3)	79	—	725
Balance - June 30, 2023	<u>\$ 1,559</u>	<u>\$ 118</u>	<u>\$ 2,123</u>	<u>\$ 515</u>	<u>\$ 85</u>	<u>\$ —</u>	<u>\$ 4,400</u>
Allowance for loan losses:							
Balance - December 31, 2021	\$ 571	\$ 381	\$ 3,143	\$ 973	\$ 10	\$ 164	\$ 5,242
Charge-offs	—	—	—	—	(17)	—	(17)
Recoveries	189	53	—	—	—	—	242
Provision (Benefit)	(214)	(236)	438	(108)	23	97	—
Balance - June 30, 2022	<u>\$ 546</u>	<u>\$ 198</u>	<u>\$ 3,581</u>	<u>\$ 865</u>	<u>\$ 16</u>	<u>\$ 261</u>	<u>\$ 5,467</u>

The Company has five individually evaluated loans, totaling \$15.0 million, of which \$10.6 million were market-based priced construction loans and \$4.4 million were collateral-dependent construction loans at June 30, 2023. Two of these loans totaling \$4.4 million are secured by the same project located in the Bronx, New York, and are currently placed on non-accrual status. Three of these loans totaling \$10.6 million were subsequently sold in July 2023 with a loss of \$159,000 charged off against the allowance for credit loss on loans. There was no interest income recognized from non-accrual loans as of June 30, 2023. There were no non-accrual loans at December 31, 2022.

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for credit losses for loans that were considered collateral dependent and impaired as of and for the periods presented:

As of and for the Three and Six Months Ended June 30, 2023 and June 30, 2022:

2023 - Collateral Dependent	Recorded	Unpaid Principal	Related	Three Months Ended June 30, 2023		Six Months Ended June 30, 2023	
	Investment	Balance	Allowance	Average Recorded	Interest Income	Average Recorded	Interest Income
	(In Thousands)						
With no related allowance recorded:							
Residential real estate-Multi-family	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Non-residential real estate	—	—	—	—	—	—	—
Construction	4,353	4,353	—	1,450	—	726	—
Commercial and industrial	—	—	—	—	—	—	—
	<u>4,353</u>	<u>4,353</u>	<u>—</u>	<u>1,450</u>	<u>—</u>	<u>726</u>	<u>—</u>
With an allowance recorded							
Total:							
Residential real estate-Multi-family	—	—	—	—	—	—	—
Non-residential real estate	—	—	—	—	—	—	—
Construction	4,353	4,353	—	1,450	—	726	—
Commercial and industrial	—	—	—	—	—	—	—
	<u>\$ 4,353</u>	<u>\$ 4,353</u>	<u>\$ —</u>	<u>\$ 1,450</u>	<u>\$ —</u>	<u>\$ 726</u>	<u>\$ —</u>
2022 - Impaired	Recorded	Unpaid Principal	Related	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Investment	Balance	Allowance	Average Recorded	Interest Income	Average Recorded	Interest Income
	(In Thousands)						
With no related allowance recorded:							
Residential real estate-Multi-family	\$ 865	\$ 865	\$ —	\$ 865	\$ 16	\$ 869	\$ 22
Non-residential real estate	769	836	—	768	4	760	14
Construction	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—	—
	<u>1,634</u>	<u>1,701</u>	<u>—</u>	<u>1,633</u>	<u>20</u>	<u>1,629</u>	<u>36</u>
With an allowance recorded							
Total:							
Residential real estate-Multi-family	865	865	—	865	16	869	22
Non-residential real estate	769	836	—	768	4	760	14
Construction	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—	—
	<u>\$ 1,634</u>	<u>\$ 1,701</u>	<u>\$ —</u>	<u>\$ 1,633</u>	<u>\$ 20</u>	<u>\$ 1,629</u>	<u>\$ 36</u>

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As of and for the Year Ended December 31, 2022:

2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(In Thousands)					
With no related allowance recorded:					
Residential real estate-Multi-family	\$ 855	\$ 769	\$ —	\$ 863	\$ 43
Non-residential real estate	—	—	—	385	14
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
	<u>855</u>	<u>769</u>	<u>—</u>	<u>1,248</u>	<u>57</u>
With an allowance recorded	—	—	—	—	—
Total:					
Residential real estate-Multi-family	855	769	—	863	43
Non-residential real estate	—	—	—	385	14
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
	<u>\$ 855</u>	<u>\$ 769</u>	<u>\$ —</u>	<u>\$ 1,248</u>	<u>\$ 57</u>

The following tables provide information about delinquencies in our loan portfolio at the dates indicated.

Age Analysis of Past Due Loans as of June 30, 2023:

	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
(In Thousands)							
Residential real estate:							
One- to four-family	\$ —	\$ —	\$ —	\$ 5,351	\$ 5,351	\$ 5,351	\$ —
Multi-family	—	—	—	122,976	122,976	122,976	—
Mixed-use	—	—	—	28,890	28,890	28,890	—
Non-residential real estate	—	—	—	20,805	20,805	20,805	—
Construction loans	4,353	—	—	4,353	1,094,403	1,098,756	—
Commercial and industrial loans	—	—	—	114,035	114,035	114,035	—
Consumer	—	—	—	730	730	730	—
	<u>\$ 4,353</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,353</u>	<u>\$ 1,387,190</u>	<u>\$ 1,391,543</u>	<u>\$ —</u>

Age Analysis of Past Due Loans as of December 31, 2022:

	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due (In Thousands)	Current	Total Loans Receivable	Recorded Investment	> 90 Days and Accruing
Residential real estate:								
One- to four-family	\$ —	\$ —	\$ —	\$ 5,467	\$ 5,467	\$ 5,467	\$ —	\$ —
Multi-family	—	946	—	946	122,439	123,385	—	—
Mixed-use	—	—	—	—	21,902	21,902	—	—
Non-residential real estate	—	—	—	—	25,324	25,324	—	—
Construction loans	—	—	—	—	930,628	930,628	—	—
Commercial and industrial loans	—	—	—	—	110,069	110,069	—	—
Consumer	—	—	—	—	546	546	—	—
	\$ —	\$ 946	\$ —	\$ 946	\$ 1,216,375	\$ 1,217,321	\$ —	\$ —

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. The Company uses the following definitions for risk ratings:

Pass – Loans that are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

Special Mention – Loans which do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but have some credit deficiencies or other potential weaknesses.

Substandard – Loans which are inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans which have all of the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values.

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The following table presents the risk category of loans at June 30, 2023 by loan segment and vintage year:

June 30, 2023	Term Loans Amortized Costs Basis by Origination Year						Revolving	Revolving
	2023	2022	2021	2020	2019	Prior	Loans	Loans
							Amortized	Converted
Residential real estate								
Risk Rating								
Pass	\$ 21,490	\$ 58,586	\$ 16,309	\$ 10,821	\$ 1,365	\$ 47,734	\$ -	\$ 156,305
Special Mention	-	-	-	912	-	-	-	912
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>21,490</u>	\$ <u>58,586</u>	\$ <u>16,309</u>	\$ <u>11,733</u>	\$ <u>1,365</u>	\$ <u>47,734</u>	\$ -	\$ <u>157,217</u>
Residential real estate								
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-residential real estate								
Risk Rating								
Pass	\$ -	\$ 254	\$ 2,163	\$ 1,004	\$ 385	\$ 16,999	\$ -	\$ 20,805
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>-</u>	\$ <u>254</u>	\$ <u>2,163</u>	\$ <u>1,004</u>	\$ <u>385</u>	\$ <u>16,999</u>	\$ <u>-</u>	\$ <u>20,805</u>
Non-residential real estate								
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction								
Risk Rating								
Pass	\$ 145,988	\$ 535,614	\$ 259,495	\$ 67,280	\$ 33,895	\$ 41,531	\$ -	\$ 1,083,803
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	2,000	1,500	4,353	-	7,100	-	14,953
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>145,988</u>	\$ <u>537,614</u>	\$ <u>260,995</u>	\$ <u>71,633</u>	\$ <u>33,895</u>	\$ <u>48,631</u>	\$ <u>-</u>	\$ <u>1,098,756</u>
Construction								
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159	\$ -	\$ 159
Commercial and industrial								
Risk Rating								
Pass	\$ 140	\$ 9,066	\$ 534	\$ 605	\$ 637	\$ 2,453	\$ 99,011	\$ 1,589
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>140</u>	\$ <u>9,066</u>	\$ <u>534</u>	\$ <u>605</u>	\$ <u>637</u>	\$ <u>2,453</u>	\$ <u>99,011</u>	\$ <u>1,589</u>
Commercial and industrial								
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer								
Risk Rating								
Pass	\$ 707	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23	\$ -
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>707</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23</u>	\$ <u>-</u>
Consumer								
Current period gross charge-offs	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56
Total								
Risk Rating								
Pass	\$ 168,325	\$ 603,520	\$ 278,501	\$ 79,710	\$ 36,282	\$ 108,717	\$ 99,034	\$ 1,589
Special Mention	-	-	-	912	-	-	-	912
Substandard	-	2,000	1,500	4,353	-	7,100	-	14,953
Doubtful	-	-	-	-	-	-	-	-
Total	\$ <u>168,325</u>	\$ <u>605,520</u>	\$ <u>280,001</u>	\$ <u>84,975</u>	\$ <u>36,282</u>	\$ <u>115,817</u>	\$ <u>99,034</u>	\$ <u>1,589</u>

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The following table provides certain information related to the credit quality of our loan portfolio at December 31, 2022.

Credit Risk Profile by Internally Assigned Grade as of December 31, 2022:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Total
Grade:	(In Thousands)					
Pass	\$ 148,953	\$ 25,324	\$ 930,628	\$ 110,069	\$ 546	\$ 1,215,520
Special Mention	946	—	—	—	—	946
Substandard	855	—	—	—	—	855
Doubtful	—	—	—	—	—	—
	\$ 150,754	\$ 25,324	\$ 930,628	\$ 110,069	\$ 546	\$ 1,217,321

Modifications to Borrowers Experiencing Financial Difficulty:

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no loans modified to borrowers experiencing financial difficulty during the three and six months ended June 30, 2023 or the year ended December 31, 2022.

Allowance for Credit Losses on Off-Balance Sheet Commitments:

The following table presents the activity in the allowance for credit losses related to off-balance sheet commitments, that is included in Accounts Payable and Accrued Expenses on the consolidated statement of financial condition, for the three and six months ended June 30, 2023:

	Allowance for Credit Loss
Balance – December 31, 2022	\$ -
Impact of adopting ASC 326	1,586
Provision for credit loss	(200)
Balance – March 31, 2023	\$ 1,386
Provision for credit loss	83
Balance – June 30, 2023	\$ 1,469

Note 7 — Real Estate Owned (“REO”)

The Company owned one foreclosed property valued at approximately \$ 1,456,000 at June 30, 2023 and \$ 1,456,000 at December 31, 2022, consisting of an office building located in Pennsylvania. The property was acquired through foreclosure in December 2014.

Further declines in real estate values may result in impairment charges in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. REO expense recorded in the consolidated statements of income amounted to \$21,000 and \$21,000 for the three months, and \$41,000 and \$52,000 for the six months ended June 30, 2023 and 2022, respectively.

Note 8—Federal Home Loan Bank of New York (“FHLB”) Advances

FHLB advances are summarized as follows at June 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
		(Dollars in Thousands)		
Advances maturing in:				
One year or less	\$ 7,000	2.86 %	\$ 7,000	2.83 %
After one to three years	—	— %	7,000	2.86 %
After five years (due 2030)	7,000	1.61 %	7,000	1.61 %
	\$ 14,000	2.24 %	\$ 21,000	2.43 %

At June 30, 2023, none of the above advances were subject to early call or redemption features. All advances had fixed interest rates, with the remaining term of nine months for one advance and seven years for the other advance. At June 30, 2023, the advances were secured by a pledge of the Company's investment in the capital stock of the FHLB and a blanket assignment of the Company's otherwise unpledged qualifying mortgage loans. At June 30, 2023, these unpledged qualifying mortgage loans were not pledged to any company other than the FHLB. At June 30, 2023, the Company had the ability to borrow \$32.6 million, net of \$14.0 million in outstanding advances, from the FHLB and \$8.0 million from Atlantic Community Bankers Bank ("ACBB").

Note 9—Benefits Plans

Outside Director Retirement Plan (“DRP”)

The DRP is an unfunded non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The following table sets forth information regarding the components of net pension periodic expense measured as of June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars In Thousands)		(Dollars In Thousands)	
Net periodic pension expense:				
Service cost	\$ 31	\$ 30	\$ 62	\$ 60
Interest cost	10	14	20	28
Actuarial (gain) loss recognized	(8)	6	(16)	13
Total net periodic pension expense included in other non-interest expenses	\$ 33	\$ 50	\$ 66	\$ 101

Unrecognized net loss of \$18,000 and \$7,000 for the three months, and \$36,000 and \$14,000 for the six months ended June 30, 2023 and 2022, respectively, were included in accumulated other comprehensive income.

Supplemental Executive Retirement Plan (“SERP”)

The SERP is a non-contributory defined benefit plan that covers certain officers of the Company. Under the SERP, each of these individuals will be entitled to receive upon retirement an annual benefit paid in monthly installments equal to 50% of his average base salary in the three-year period preceding retirement. Each individual may also retire early and receive a reduced benefit upon the attainment of certain age and years of service combination. Additional terms related to death while employed, death after retirement, disability before retirement and termination of employment are fully described within the plan document. The benefit payment term is the greater of 15 years or the executives remaining life. No benefits are expected to be paid during the next five years.

Expenses of \$51,000 and \$121,000 for the three months, and \$ 111,000 and \$240,000 for the six months ended June 30, 2023 and 2022, respectively, were recorded for this plan and are reflected in the Consolidated Statements of Income under Salaries and Employee Benefits.

Stock-Based Deferral Plan

In June 2021, the Company established a stock-based deferral plan for eligible key executives and members of the Board of Directors of the Company to elect to defer compensation received from the Company for their services and make deemed investments of that deferred compensation in shares of the Company's common stock. At June 30, 2023, the Company did not have any obligations under the plan.

401(k) Plan

The Company maintains a 401(k) plan for all eligible employees. Participants are permitted to contribute from 1% to 15% or 60% of their annual compensation up to the maximum permitted under the Internal Revenue Code. The Company provided no matching contribution during the three and six months ended June 30, 2023 and 2022.

Employee Stock Ownership Plan ("ESOP")

In conjunction with the Mid-Tier Holding Company's public stock offering in 2006, the Bank established an ESOP for all eligible employees (substantially all full-time employees). The ESOP borrowed \$5,184,200 from the Mid-Tier Holding Company and used those funds to acquire 518,420 shares of the Mid-Tier Holding Company common stock at \$ 10.00 per share. The loan from the Mid-Tier Holding Company, which has been assumed by the Company, carries an interest rate of 8.25% and is repayable in twenty annual installments through 2025.

In conjunction with the Company's second-step conversion offering, on July 12, 2021, the ESOP borrowed \$7,827,260 from the Company and used those funds to acquire 782,726 shares of Company common stock at \$ 10.00 per share. The loan from the Company carries an interest rate equal to 3.25% and is repayable in fifteen annual installments through 2035.

Each year, the Bank makes discretionary contributions to the ESOP equal to the principal and interest payment required on the loan from the Company. The ESOP may further pay down the principal balance of the loans by using dividends paid, if any, on the shares of Company common stock it owns. The balance remaining on the first ESOP loan was \$1,327,000 at June 30, 2023 and December 31, 2022. The balance remaining on the second ESOP loan was \$6,850,000 at June 30, 2023 and December 31, 2022.

Shares purchased with the loan proceeds serve as collateral for the loan and are held in a suspense account for future allocation among ESOP participants. As the loan principal is repaid, shares will be released from the suspense account and become eligible for allocation. The allocation among plan participants will be as described in the ESOP governing document.

ESOP shares initially pledged as collateral were recorded as unearned ESOP shares in the stockholders' equity section of the consolidated statement of financial condition. Thereafter, on a monthly basis over the terms of the ESOP loans, approximately 2,894 shares for the ESOP loan made in 2006 and approximately 4,348 shares for the ESOP loan made in 2021 are committed to be released respectively. Compensation expense is recorded equal to the shares committed to be released multiplied by the average closing price of the Company's stock during that month. ESOP expense totaled approximately \$294,000 and \$246,000 for the three months, and \$ 620,000 and \$504,000 for the six months ended June 30, 2023 and 2022, respectively. Dividends on unallocated shares, which totaled approximately \$47,000 and \$209,000 for the three months, and \$ 94,000 and \$261,000 for the six months ended June 30, 2023 and 2022, are recorded as a reduction of the ESOP loan. Dividends on allocated shares, which totaled approximately \$42,000 and \$146,000 for the three months, and \$ 83,000 and \$182,000 for the six months ended June 30, 2023 and 2022, respectively, are charged to retained earnings.

ESOP shares are summarized as follows:

	June 30, 2023	December 31, 2022
Allocated shares	694,848	607,922
Shares committed to be released	43,458	86,920
Unearned shares	739,103	782,567
Total ESOP Shares	1,477,409	1,477,409
Less allocated shares distributed to former or retired employees	(143,612)	(122,280)
Total ESOP Shares Held by Trustee	1,333,797	1,355,129
Fair value of unearned shares	<u><u>\$10,997,853</u></u>	<u><u>\$11,675,897</u></u>

Note 10 — Leases

The Company has operating leases and finance leases all comprised of real estate property. The operating leases comprise substantially all of the Company's obligations in which the Company is the lessee, with remaining lease terms ranging between 2 and 9 years. Most operating lease agreements consist of initial lease terms ranging between 5 and 10 years, with options to renew the leases or extend the term. The finance lease has a remaining lease term of 95 years. The payment structure of all leases is fixed rental payments with lease payments increasing on pre-determined dates at either a predetermined amount or change in the consumer price index.

In accordance with ASC 842, the Company recognized operating and financing lease assets and corresponding lease liabilities related to office facilities and retail branches. The operating and financing lease assets represent the Company's right to use an underlying asset for the lease term, and the lease liability represents the Company's obligation to make lease payments over the lease term. The Company has elected that any short term leases would be expensed as incurred.

The operating and financing lease asset and lease liability are determined at the commencement date of the lease based on the present value of the lease payments. Our leases do not provide an implicit interest rate. The company used its incremental borrowing rate, the rate of interest to borrow in a collateralized basis for a similar term, at the lease commencement date.

All of the leases are net leases and, therefore, do not contain non-lease components. The Company either pays directly or reimburses the lessor for property and casualty insurance cost and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property which are categorized as non-components as outlined in the applicable guidance.

At June 30, 2023 and December 31, 2022, the quantitative data relating to the Company's leases are as follows (in thousands):

	June 30, 2023	December 31, 2022
Finance Lease Amounts:		
ROU asset	\$ 353	\$ 355
Lease liability	\$ 552	\$ 533
Operating Lease Amounts:		
ROU assets	\$ 2,055	\$ 2,312
Lease liabilities	\$ 2,109	\$ 2,363
Weighted-average remaining lease term		
Finance lease	93.5 years	94 years
Operating leases	5.94 years	6.19 years
Weighted-average discount rate		
Finance lease	9.50 %	9.50 %
Operating leases	1.43 %	1.50 %

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars In Thousands)		(Dollars In Thousands)	
Finance Lease Cost				
Amortization of ROU asset	\$ 1		\$ 2	\$ 2
Interest on lease liability	\$ 9		\$ 19	\$ 19
Operating Lease Costs	\$ 109		\$ 253	\$ 283
Cash paid for amounts included in the measurement of lease liabilities				
Finance lease	\$ —		\$ —	\$ —
Operating leases	\$ 106		\$ 248	\$ 277

Maturities of lease liabilities at June 30, 2023 are as follows (in thousands):

	Operating Leases	Finance Lease
Years ended December 31:		
2023	\$ 236	\$ 15
2024	436	30
2025	398	30
2026	235	31
2027	239	33
Thereafter	636	4,016
Total lease payments	\$ 2,180	\$ 4,155
Interest	(71)	(3,603)
Lease liability	\$ 2,109	\$ 552

Note 11—Fair Value Disclosures

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

The three levels of the fair value hierarchy are as follows:

- Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2:* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's assets that are carried at fair value on a recurring basis and the level that was used to determine their fair value at June 30, 2023 and December 31, 2022:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Carried at Fair Value on a Recurring Basis	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Assets:								
Marketable equity securities:								
Mutual funds	\$ 18,143	\$ 18,041	\$ —	\$ —	\$ —	\$ —	\$ 18,143	\$ 18,041
Mortgage-backed securities								
FHLMC	—	—	—	1	—	—	—	1
Total assets	<u>\$ 18,143</u>	<u>\$ 18,041</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,143</u>	<u>\$ 18,042</u>

There were no transfers between Level 1 and 2 during the three and six months ended June 30, 2023 or the year ended December 31, 2022. The Company did not have any liabilities that were carried at fair value on a recurring basis at June 30, 2023 and December 31, 2022.

The following table sets forth the Company's assets that are carried at fair value on a non-recurring basis and the level that was used to determine their fair value, at June 30, 2023 and December 31, 2022:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Carried at Fair Value on a Non-Recurring Basis	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Assets:								
Loans individually evaluated								
Real estate owned	\$ 10,441	\$ —	\$ —	\$ —	\$ 4,353	\$ 855	\$ 14,794	\$ 855
Total assets	<u>\$ 10,441</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,356</u>	<u>\$ 1,456</u>	<u>\$ 1,456</u>	<u>\$ 1,456</u>

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The following tables present the qualitative information about non-recurring Level 3 fair value measurements of financial instruments at June 30, 2023 and December 31, 2022:

	At June 30, 2023				
	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
	(In Thousands)				
Assets:					
Loans individually evaluated	4,353	Income approach	Capitalization rate	6.00 %	6.00 %
Real estate owned	1,456	Income approach	Capitalization rate	12.00 %	12.00 %

	At December 31, 2022				
	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
	(In Thousands)				
Assets:					
Impaired loans	\$ 855	Income approach	Capitalization rate	5.60 %	5.60 %
Real estate owned	1,456	Income approach	Capitalization rate	12.00 %	12.00 %

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at June 30, 2023 and December 31, 2022.

The methods and assumptions used to estimate fair value at June 30, 2023 and December 31, 2022 are as follows:

For real estate owned, fair value is generally determined through independent appraisals or fair value estimations of the underlying properties which generally include various Level 3 inputs which are not identifiable. The appraisals or fair value estimation may be adjusted by management for qualitative reasons and estimated liquidation expenses. Management's assumptions may include consideration of location and occupancy of the property and current economic conditions. Subsequently, as these properties are actively marketed, the estimated fair values may be periodically adjusted through incremental subsequent write-downs to reflect decreases in estimated values resulting from sales price observations and the impact of changing economic and market conditions.

A loan is considered individually evaluated for credit loss when, based upon current information and events, it is probable that the Company will be unable to collect all scheduled payments in accordance with the contractual terms of the loan. Individually evaluated loans that are collateral dependent are written down to fair value through the establishment of specific reserves, a component of the allowance for credit losses or through partial charge-offs, and as such are carried at the lower of cost or the fair value. Estimates of fair value of the collateral are determined based on a variety of information, including available valuations from certified appraisers for similar assets, present value of discounted cash flows and inputs that are estimated based on commonly used and generally accepted industry liquidation advance rates and estimates and assumptions developed by management. The appraisals may be adjusted by management for estimated liquidation expenses and qualitative factors such as economic conditions. If real estate is not the primary source of repayment, present value of discounted cash flows and estimates using generally accepted industry liquidation advance rates are utilized. Due to the multitude of assumptions, many of which are subjective in nature, and the varying inputs and techniques used by appraisers, the Company recognizes that valuations could differ across a wide spectrum of valuation techniques employed and accordingly, fair value estimates for impaired loans are classified as Level 3.

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

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The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2023 and December 31, 2022:

Securities

Fair values for marketable equity securities are determined by quoted market prices on nationally recognized and foreign securities exchanges (Level 1). Fair values for securities available for sale and held to maturity are determined utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the security's terms and conditions, among other things.

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

(In thousands)	Fair Value at June 30, 2023				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial Assets					
Cash and cash equivalents	\$ 119,875	\$ 119,875	\$ 119,875	\$ —	\$ —
Certificates of deposit	100	100	—	100	—
Marketable equity securities	18,143	18,143	18,143	—	—
Securities available for sale	—	—	—	—	—
Securities held to maturity	15,912	12,818	—	12,818	—
Loans receivable, net	1,387,386	1,365,549	—	—	1,365,549
Investments in restricted stock	929	929	—	929	—
Accrued interest receivable	10,532	10,532	—	10,532	—
Financial Liabilities					
Deposits	1,315,816	1,320,329	—	1,320,329	—
FHLB of New York advances	14,000	12,751	—	12,751	—

(In thousands)	Fair Value at December 31, 2022						
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Financial Assets							
Cash and cash equivalents	\$ 95,308	\$ 95,308	\$ 95,308	\$ —	\$ —	\$ —	\$ —
Certificates of deposit	100	100	—	100	—	—	—
Marketable equity securities	18,041	18,041	18,041	—	—	—	—
Securities available for sale	1	1	—	1	—	—	—
Securities held to maturity	26,395	22,865	—	22,865	—	—	—
Loans receivable, net	1,212,219	1,191,483	—	—	—	1,191,483	—
Investments in restricted stock	1,238	1,238	—	1,238	—	—	—
Accrued interest receivable	8,597	8,597	—	8,597	—	8,597	—
Financial Liabilities							
Deposits	1,121,955	1,121,107	—	1,121,107	—	—	—
FHLB of New York advances	21,000	19,437	—	19,437	—	—	—

Note 12—Revenue Recognition

The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606, Revenue from Contracts with Customers. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges on deposits, electronic banking fees and charges income, and investment advisory fees.

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as referral fees based month end reports. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2023, the Company did not have any significant contract balances.

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All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three and six months ended June 30, 2023 and 2022. Sources of revenue outside the scope of ASC 606 are noted as such:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023 (In Thousands)	2022 (In Thousands)	2023 (In Thousands)	2022 (In Thousands)
Non-interest income:				
Deposit-related fees and charges	\$ 14	\$ 18	\$ 28	\$ 36
Loan-related fees and charges ⁽¹⁾	196	382	546	553
Electronic banking fees and charges	237	227	480	429
Gain on disposition of equipment ⁽¹⁾	—	46	—	46
Income from bank owned life insurance ⁽¹⁾	553	150	704	297
Investment advisory fees	113	120	229	257
Unrealized gain (loss) on equity securities ⁽¹⁾	(123)	(430)	102	(1,064)
Miscellaneous ⁽¹⁾	30	23	46	40
Total non-interest income	\$ 1,020	\$ 536	\$ 2,135	\$ 594

(1) Not within the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 is as follows:

Service Charges on Deposit Accounts

The Company earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed at the point in the time the Company fulfills the customer's request. The Company discontinued the imposition of overdraft fees on all consumer and business accounts in August 2022. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Electronic Banking Fee Income

The Company earns interchange fees from debit and credit card holder transactions conducted through various payment networks. Interchange fees from cardholder transactions are recognized daily, concurrently with the transaction processing services provided by an outsourced technology solution.

Investment Advisory Fees

The Company earns fees from investment advisory and financial planning services under the name of Harbor West Financial Planning Wealth Management, a division of the Company through a networking arrangement with a registered broker-dealer and investment advisor. The registered broker-dealer deducts investment advisory fees and financial planning services fees from the client's assets under management and remits the fees, net of administrative fees, to the Company on a monthly basis. The Company recognizes the fees into non-interest income upon receipt of the monthly remittances.

Note 13 — Other Non-Interest Expenses

The following is an analysis of other non-interest expenses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In Thousands)		(In Thousands)	
Other	\$ 900	\$ 721	\$ 1,665	\$ 1,337
Service contracts	358	271	676	528
Consulting expense	232	202	421	460
Telephone	161	150	319	291
Directors compensation	226	142	450	281
Audit and accounting	105	95	217	300
Insurance	97	96	192	178
Director, officer, and employee expense	68	70	128	128
Legal fees	116	203	236	357
Office supplies and stationary	39	37	88	77
Recruiting expense	24	18	25	45
	<u>\$ 2,326</u>	<u>\$ 2,005</u>	<u>\$ 4,417</u>	<u>\$ 3,982</u>

Note 14 — Earnings Per Share

Basic earnings per share is calculated by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period less any unvested restricted shares. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating basic net income per common share until they are committed to be released. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method. The following table sets forth the weighted average shares outstanding used in the computations of basic and diluted earnings per share.

The following table sets forth the computations of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In Thousands, except per share data)		(In Thousands, except per share data)	
Net income (basic and diluted)	<u>\$ 11,087</u>	<u>\$ 5,393</u>	<u>\$ 22,331</u>	<u>\$ 9,038</u>
Weighted average shares issued	15,820	16,378	15,431	16,378
Less: Weighted average unearned ESOP shares	(768)	(834)	(757)	(844)
Less: Weighted average unvested restricted shares	(352)	—	(352)	—
Basic weighted average shares outstanding	14,700	15,544	14,322	15,534
Add: Dilutive effect of restricted stock	31	—	39	—
Diluted weighted average shares outstanding	<u>14,731</u>	<u>15,544</u>	<u>14,361</u>	<u>15,534</u>
Net income per share				
Basic	\$ 0.75	\$ 0.35	\$ 1.56	\$ 0.58
Diluted	\$ 0.75	\$ 0.35	\$ 1.56	\$ 0.58

Note 15 — Stock Compensation Plans

At a special shareholders meeting held on September 29, 2022, the Company's shareholders approved the Company's 2022 Equity Incentive Plan whereby 1,369,771 shares of the Company's common stock were reserved from authorized but unissued shares for purposes of grants of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, performance shares and performance units to selected employees and non-employee directors of the Company. Under this plan, 86,880 shares of restricted stock and 217,206 nonqualified stock options in the aggregate were awarded to six non-employee directors of the Company on September 30, 2022, and 265,157 shares of restricted stock and 662,891 nonqualified stock options were in the aggregate awarded to employees of the Company on November 17, 2022. The restricted shares and nonqualified stock options vest at a rate of 20% per year from the date of the grants.

The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted stock under the Company's 2022 Equity Incentive plan. Management recognizes compensation expense for the fair value of restricted stock on a straight-line basis over the requisite service period for the entire award. As of June 30, 2023 and December 31, 2022, there were 137,637 shares available for future awards under this plan, which includes 98,311 shares available for stock options and 39,326 shares available for restricted stock awards.

A summary of the Company's restricted stock activity and related information for the three and six months ended June 30, 2023 follows:

	2023		
	Shares	Weighted Average Grant-Date Market Price	
Outstanding at December 31, 2022	352,037	\$ 13.67	
Granted	—	—	
Forfeited	—	—	
Vested	—	—	
Outstanding at March 31, 2023	352,037	\$ 13.67	
Granted	—	—	
Forfeited	—	—	
Vested	—	—	
Outstanding at June 30, 2023	352,037	\$ 13.67	

Compensation expense related to restricted stock was \$241,000 and \$482,000 for the three and six months ended June 30, 2023. At June 30, 2023 and December 31, 2022, the total compensation cost related to non-vested awards that has not yet been recognized was \$4.0 million and \$4.7 million, respectively, which is expected to be recognized over the next 5 years.

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A summary of the Company's stock option activity and related information for the three and six months ended June 30, 2023 follows:

	2023	Weighted Average Grant-Date Market Price
	Options	\$
Outstanding at December 31, 2022	880,097	\$ 13.67
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding at March 31, 2023	880,097	\$ 13.67
Exercisable at March 31, 2023	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding at June 30, 2023	880,097	\$ 13.67
Exercisable at June 30, 2023	—	—

Compensation cost related to stock options is recognized based on the fair value of the stock options at the grant date on a straight line basis over the vesting period. Compensation expense related to stock options was \$192,000 and \$384,000 for the three and six months ended June 30, 2023. At June 30, 2023 and December 31, 2022, unrecognized compensation cost related to stock option awards was \$3.2 million and \$3.7 million, respectively, which is expected to be recognized over the next 5 years.

Note 16 — Recent Accounting Pronouncements

There is no Accounting Standards pending adoption at June 30, 2023.

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

Forward-Looking Statements

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "plan," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future.

The Company cautions readers of this report that a number of important factors could cause the Company's actual results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to: (i) general economic conditions, including higher inflation, either nationally or in our market area, that are worse than expected; (ii) changes in the interest rate environment that reduce our interest margins, reduce the fair value of financial instruments or reduce the demand for our loan products; (iii) increased competitive pressures among financial services companies; (iv) changes in consumer spending, borrowing and savings habits; (v) changes in the quality and composition of our loan or investment portfolios; (vi) changes in real estate market values in our market area; (vii) decreased demand for loan products, deposit flows, competition, or decreased demand for financial services in our market area; (viii) major catastrophes such as earthquakes, floods or other natural or human disasters and infectious disease outbreaks, including the recent coronavirus (COVID-19) pandemic, the related disruption to local, regional and global economic activity and financial markets, and the impact that any of the foregoing may have on us and our customers and other constituencies; (ix) legislative or regulatory changes that adversely affect our business or changes in the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; (x) technological changes that may be more difficult or expensive than expected; (xi) success or consummation of new business initiatives may be more difficult or expensive than expected; (xii) the inability to successfully integrate acquired businesses and financial institutions into our business operations; (xiii) adverse changes in the securities markets; (xiv) the inability of third party service providers to perform; and (xv) changes in accounting policies and practices, as may be adopted by bank regulatory agencies or the Financial Accounting Standards Board.

Critical Accounting Policies

We consider accounting policies involving significant judgements and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider these accounting policies to be our crucial accounting policies. The judgements and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results could differ from these judgements and estimates under different conditions, resulting in a change that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

We consider the allowance for credit losses ("ACL") to be a critical accounting policy. In connection with the Company's adoption of Topic 326 effective January 1, 2023, the Company adopted the three applicable components of the ACL: an ACL related to loans, an ACL related to held-to-maturity ("HTM") securities, and an ACL related to off-balance sheet credit exposures. See Note 1, Summary of Significant Accounting Policies, for additional information on the adoption of ASC 326.

Balance Sheet Analysis

General

Total assets increased by \$190.7 million, or 13.4%, to \$1.6 billion at June 30, 2023, from \$1.4 billion at December 31, 2022. The increase in assets was primarily due to an increase in net loans of \$175.2 million and an increase in cash and cash equivalents of \$24.6 million, partially offset by a decrease in Federal Home Loan Bank advances of \$7.0 million and a decrease in bank owned life insurance of \$1.1 million.

Cash and cash equivalents increased by \$24.6 million, or 25.8%, to \$119.9 million at June 30, 2023 from \$95.3 million at December 31, 2022. The increase in cash and cash equivalents was a result of increases in deposits of \$193.9 million, partially offset by a reduction in FHLB advances of \$7.0 million, and stock repurchases of \$14.3 million.

Equity securities increased by \$102,000, or 0.6%, to \$18.1 million at June 30, 2023 from \$18.0 million at December 31, 2022. The increase in equity securities was attributable to market appreciation of \$102,000 due to market interest rate volatility during the six months ended June 30, 2023.

Securities held-to-maturity decreased by \$10.6 million, or 40.2%, to \$15.8 million at June 30, 2023 from \$26.4 million at December 31, 2022 due to the maturity of \$10.0 million in U.S. Treasury holdings, the establishment of \$135,000 in an allowance for credit losses for held-to-maturity securities, and pay-downs of various investment securities.

The allowance for credit losses for held-to-maturity securities totaling \$135,000 was established pursuant to the adoption of the current expected credit losses model ("CECL") on held-to-maturity investment securities loss exposures. In this regard, we recognized a one-time credit of \$132,000 due to the adoption of CECL at January 1, 2023 and credit loss expense totaling \$3,000 during the six months ended June 30, 2023.

Loans, net of the allowance for credit losses, increased by \$175.2 million, or 14.5%, to \$1.4 billion at June 30, 2023 from \$1.2 billion at December 31, 2022. The increase in loans, net of the allowance for loan losses, was primarily due to loan originations of \$448.0 million during the six months ended June 30, 2023, consisting primarily of \$405.6 million in construction loans with respect to which approximately 42.5% of the funds were disbursed at loan closings, with the remaining funds to be disbursed over the terms of the construction loans. In addition, we originated \$20.9 million in commercial and industrial loans, \$13.3 million in multi-family loans, and \$8.2 million in mixed-use loans.

Loan originations resulted in a net increase of \$168.1 million in construction loans, \$7.0 million in mixed-use loans, \$4.0 million in commercial and industrial loans, and \$184,000 in consumer loans. The increase in our loan portfolio was partially offset by decreases in non-residential loans of \$4.5 million, \$409,000 in multi-family loans, and \$116,000 in residential loans, coupled with normal pay-downs and principal reductions.

The allowance for credit losses related to loans decreased to \$4.4 million as of June 30, 2023 from \$5.5 million as of December 31, 2022. The decrease in the allowance for credit losses related to loans was due to a one-time decrease of \$1.6 million due to the adoption of CECL at January 1, 2023 and charge-offs of \$214,000, partially offset by provision for credit losses totaling \$725,000.

Premises and equipment decreased by \$417,000, or 1.6%, to \$25.6 million at June 30, 2023 from \$26.1 million at December 31, 2022 primarily due to depreciation of fixed assets.

Investments in Federal Home Loan Bank stock decreased by \$309,000, or 25.0%, to \$929,000 at June 30, 2023 from \$1.2 million at December 31, 2022 due primarily to a reduction in mandatory Federal Home Loan Bank stock in connection with the maturity of \$7.0 million in advances during the six months ended June 30, 2023.

Bank owned life insurance ("BOLI") decreased by \$1.1 million, or 4.3%, to \$24.8 million at June 30, 2023 from \$25.9 million at December 31, 2022 due to two death claims totaling \$1.8 million on BOLI policies, partially offset by increases in the BOLI cash value.

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Accrued interest receivable increased by \$1.9 million, or 22.5%, to \$10.5 million at June 30, 2023 from \$8.6 million at December 31, 2022 due to an increase in the loan portfolio and three interest rate increases in 2023 that resulted in an increase in the interest rates on loans in our construction loan portfolio.

Foreclosed real estate was \$1.5 million at June 30, 2023 and December 31, 2022.

Right of use assets — operating decreased by \$257,000, or 11.1%, to \$2.1 million at June 30, 2023 from \$2.3 million at December 31, 2022, primarily due to amortization.

Other assets increased by \$1.7 million, or 31.2%, to \$7.0 million at June 30, 2023 from \$5.3 million at December 31, 2022 due to an increase in tax assets of \$2.0 million, partially offset by a decrease in suspense accounts of \$320,000 and a decrease in prepaid expense of \$6,000.

Total deposits increased by \$193.9 million, or 17.3%, to \$1.3 billion at June 30, 2023 from \$1.1 billion at December 31, 2022. The increase was primarily due to an increase in certificates of deposit of \$282.6 million, or 73.7%, partially offset by decreases in non-interest bearing demand deposits of \$47.1 million, or 12.5 %, savings account balances of \$32.0 million, or 11.7%, and NOW/money market accounts of \$9.8 million, or 11.1%.

Federal Home Loan Bank advances decreased by \$7.0 million, or 33.3%, to \$14.0 million at June 30, 2023 from \$21.0 million at December 31, 2022 due to maturity of borrowings.

Advance payments by borrowers for taxes and insurance decreased by \$216,000, or 9.1%, to \$2.2 million at June 30, 2023 from \$2.4 million at December 31, 2022 due primarily to real estate tax payments remitted by the Bank on behalf of borrowers.

Lease liability – operating decreased by \$254,000, or 10.7%, to \$2.1 million at June 30, 2023 from \$2.4 million at December 31, 2022, primarily due to repayments.

Accounts payable and accrued expenses decreased by \$3.3 million, or 22.3%, to \$11.5 million at June 30, 2023 from \$14.8 million at December 31, 2022 due primarily to a decrease in suspense account for loan closings of \$2.7 million and a decrease in accrued bonus expense of \$2.2 million for employees, partially offset by an allowance for off-balance sheet commitments totaling \$1.5 million.

The allowance for off-balance sheet commitments was \$1.5 million at June 30, 2023 due to a one-time credit of \$1.6 million resulting from the adoption of CECL at January 1, 2023, partially offset by a credit loss expense reduction totaling \$117,000 during the six months ended June 30, 2023.

Stockholders' equity increased by \$7.6 million, or 2.9% to \$269.6 million at June 30, 2023, from \$262.0 million at December 31, 2022. The increase in stockholders' equity was due to net income of \$22.3 million for the six months ended June 30, 2023, \$865,000 in the amortization of restricted stock and stock options granted in connection with the 2022 Equity Incentive Plan, a reduction of \$435,000 in unearned employee stock ownership plan shares coupled with an increase of \$185,000 in earned employee stock ownership plan shares, and \$15,000 in other comprehensive income, partially offset by stock repurchases totaling \$14.3 million, dividends paid and declared of \$1.7 million, and a one-time adjustment to retained earnings of \$99,000 due to the adoption of CECL.

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

Financial Highlights

Net income for the three months ended June 30, 2023 was \$11.1 million compared to net income of \$5.4 million for the three months ended June 30, 2022. The increase in net income of \$5.7 million, or 105.6%, between periods was primarily due to an increase in net interest income and an increase in non-interest income, partially offset by an increase in provision for credit losses, an increase in non-interest expense, and an increase in income tax expense.

Net Interest Income

Net interest income totaled \$24.0 million for the three months ended June 30, 2023, as compared to \$13.5 million for the three months ended June 30, 2022. The increase in net interest income of \$10.5 million, or 77.4%, was primarily due to an increase in interest income offset by an increase in interest expense.

The increase in interest income was attributable to increases in loans and interest-bearing deposits, partially offset by a decrease in investment securities. The increase in interest income was also attributable to a rising interest rate environment due to the Federal Reserve's interest rate increases in the past year.

The increase in market interest rates in the past year also caused an increase in our interest expense. As a result, the increase in interest expense for the three months ended June 30, 2023 was due to an increase in the cost of funds on our deposits, partially offset by a decrease in the cost of our borrowed money. The increase in interest expense was also due to an increase in the balances on our certificates of deposits and an increase in the balances on our savings and club deposits, offset by a decrease in the balances on our interest-bearing demand deposits and a decrease in the balances of our borrowed money.

Total interest and dividend income increased by \$16.9 million, or 113.7%, to \$31.7 million for the three months ended June 30, 2023 from \$14.8 million for the three months ended June 30, 2022. The increase in interest and dividend income was due to an increase in the average balance of interest earning assets of \$273.6 million, or 23.2%, to \$1.5 billion for the three months ended June 30, 2023 from \$1.2 billion for the three months ended June 30, 2022 and an increase in the yield on interest earning assets by 370 basis points from 5.02% for the three months ended June 30, 2022 to 8.72% for the three months ended June 30, 2023.

Interest expense increased by \$6.4 million, or 493.8%, to \$7.7 million for the three months ended June 30, 2023 from \$1.3 million for the three months ended June 30, 2022. The increase in interest expense was due to an increase in the cost of interest bearing liabilities by 248 basis points from 0.84% for the three months ended June 30, 2022 to 3.32% for the three months ended June 30, 2023 and an increase in average interest bearing liabilities of \$314.3 million, or 51.2%, to \$928.0 million for the three months ended June 30, 2023 from \$613.6 million for the three months ended June 30, 2022.

Net interest margin increased by 202 basis points, or 44.1%, during the three months ended June 30, 2023 to 6.60% compared to 4.58% during the three months ended June 30, 2022.

Provision for Credit Losses.

The Company recorded credit loss expenses totaling \$610,000 for the three months ended June 30, 2023 compared to no credit loss expense for the three months ended June 30, 2023. The credit loss expense of \$610,000 for the three months ended June 30, 2023 was comprised of credit loss expense for loans of \$528,000 and credit loss expense for off-balance sheet commitments of \$83,000, partially offset by credit loss expense reduction held-to-maturity investment securities of \$1,000.

We charged-off \$194,000 during the three months ended June 30, 2023 as compared to charge-offs of \$7,000 during the three months ended June 30, 2022. The charge-offs of \$194,000 during the three months ended June 30, 2023 comprised of a charge-off of \$159,000 related to three performing construction loans on the same project whereby we sold the loans to a third-party subsequent to June 30, 2023 at a loss of \$159,000. The remaining charge-offs of \$35,000 were against various unpaid overdrafts in our demand deposit accounts. The charge-offs of \$7,000 during the three months ended June 30, 2022 were against various unpaid overdrafts in our demand deposit accounts.

Based on a review at June 30, 2023 of the loans that were in the loan portfolio, our off-balance sheet credit exposures, and our HTM investment securities, management believes that the allowances for these three components are maintained at a level that represents our best estimate of inherent losses in the loan portfolio, off-balance sheet credit exposures, and HTM investment securities that were both probable and reasonably estimable.

Management uses available information to establish the appropriate level of the three ACLs. Future additions or reductions to the three ACLs might be necessary based on estimates that are susceptible to change as a result of changes

in economic conditions and other factors. As a result, our three ACLs might not be sufficient to cover actual credit losses, and future provisions for credit losses could materially adversely affect our operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our three ACLs. Such agencies may require us to recognize adjustments to the three ACLs based on their judgments about information available to them at the time of their examination.

Non-Interest Income

Non-interest income for the three months ended June 30, 2023 was \$1.0 million compared to non-interest income of \$536,000 for the three months ended June 30, 2022. The increase of \$484,000, or 90.3%, in total non-interest income was primarily due to an increase of \$403,000 in BOLI income, a decrease of \$307,000 in unrealized loss on equity securities, and an increase of \$7,000 in other non-interest income, partially offset by a decrease of \$180,000 in other loan fees and service charges, a decrease of \$46,000 in gain on sale of fixed assets, and a decrease of \$7,000 in investment advisory fees.

The increase in BOLI income was primarily due to two death claims totaling \$1.8 million on BOLI policies that resulted in additional BOLI income of \$404,000 in the three months ended June 30, 2023. The decrease in unrealized loss on equity was due to an unrealized loss of \$123,000 on equity securities during the three months ended June 30, 2023 compared to an unrealized loss of \$430,000 on equity securities during the three months ended June 30, 2022. The unrealized loss of \$123,000 on equity securities during the three months ended June 30, 2023 was due to market interest rate volatility during the quarter ended June 30, 2023.

The decrease of \$180,000 in other loan fees and service charges was due to a decrease of \$185,000 in other loan fees and loan servicing fees and a decrease of \$4,000 in deposit fees, partially offset by an increase of \$9,000 in ATM and debit card usage fees.

Non-Interest Expense

Non-interest expense increased by \$1.9 million, or 26.7%, to \$8.9 million for the three months ended June 30, 2023 from \$7.0 million for the three months ended June 30, 2022. The increase resulted primarily from increases of \$1.2 million in salaries and employee benefits, \$321,000 in other operating expense, \$187,000 in advertising expense, \$75,000 in outside data processing expense, \$43,000 in occupancy expense, and \$24,000 in equipment expense.

Salaries and employee benefits increased by \$1.2 million, or 33.9%, to \$4.8 million for the three months ended June 30, 2023 from \$3.6 million for the three months ended June 30, 2022 primarily due to an increase in number of full time equivalent personnel due to the hiring of additional personnel to support the growth of the Company, the amortization of expenses related to the 2022 Equity Incentive Plan awards of restricted stocks and options, and a decrease in loan origination expenses related to loan origination fees due to a decrease in loan originations.

Other non-interest expense increased by \$321,000, or 16.0%, to \$2.3 million for the three months ended June 30, 2023 from \$2.0 million for the three months ended June 30, 2022 due mainly to increases of \$179,000 in miscellaneous other non-interest expense, \$87,000 in service contracts expense, \$84,000 in directors compensation, \$30,000 in consulting fees, \$11,000 in telephone expense, \$10,000 in audit and accounting fees, \$6,000 in expenses related to the hiring of personnel, \$1,000 in insurance expense, and \$2,000 in office supplies. These increases were partially offset by a decrease of \$87,000 in legal fees and \$2,000 in directors, officers, and employee expenses.

The increase of \$179,000 in miscellaneous other non-interest expense was mainly due to an increase of \$120,000 in regulatory insurance premiums and assessments due to an increase in our total assets, and increases of \$37,000 in dues and subscriptions, \$23,000 in public company expenses, \$11,000 in miscellaneous expenses, and \$2,000 in postage expenses. These increases were partially offset by decreases of \$9,000 in check and correspondence bank charges, and \$4,000 in miscellaneous charge-offs.

Service contracts expense increased by \$87,000, or 32.1%, to \$358,000 for the three months ended June 30, 2023 from \$271,000 for the three months ended June 30, 2022 due to the increased cost to support the growth of the Company. Directors compensation increased by \$84,000, or 59.2%, to \$226,000 for the three months ended June 30, 2023 from \$142,000 for the three months ended June 30, 2022 due to the amortization of expenses related to the 2022

Equity Incentive Plan awards of restricted stocks and options. Consultant fees increased by \$30,000, or 15.0%, to \$232,000 for the three months ended June 30, 2023 from \$202,000 for the three months ended June 30, 2022 due to the retention of consultants to help implement CECL.

Advertising expense increased by \$187,000, or 366.7%, to \$238,000 for the three months ended June 30, 2023 from \$51,000 for the three months ended June 30, 2022 due mainly to the resumption of advertising and promotional products to promote the opening of additional branch offices and to promote interest rates offered on our deposit products.

Outside data processing expense increased by \$75,000, or 15.7%, to \$554,000 for the three months ended June 30, 2023 from \$479,000 for the three months ended June 30, 2022 due to the cost of operating an additional branch office and additional data processing services.

Occupancy expense increased by \$43,000, or 7.7%, to \$605,000 for the three months ended June 30, 2023 from \$562,000 for the three months ended June 30, 2022 primarily as a result of the cost of operating an additional branch office space.

Equipment expense increased by \$24,000, or 8.7%, to \$300,000 for the three months ended June 30, 2023 from \$276,000 for the three months ended June 30, 2022 due to the purchases of additional equipment to support the Company's growth.

Income Taxes. We recorded income tax expense of \$4.5 million and \$1.7 million for the three months ended June 30, 2023 and 2022, respectively. For the three months ended June 30, 2023, we had approximately \$587,000 in tax exempt income, compared to approximately \$185,000 in tax exempt income for the three months ended June 30, 2022. The increase in tax exempt income was due to two death claims totaling \$1.8 million on BOLI policies. Our effective income tax rates were 28.7% and 23.7% for the three months ended June 30, 2023 and 2022, respectively.

Results of Operations for the Six Months Ended June 30, 2023 and 2022

Financial Highlights

Net income for the six months ended June 30, 2023 was \$22.3 million compared to net income of \$9.0 million for the six months ended June 30, 2022. The increase in net income of \$13.3 million, or 147.1% for the six months ended June 30, 2023 compared to the same period in the prior year was due to increases in net interest income and non-interest income, partially offset by increases in provisions for credit losses, non-interest expense, and income tax expense.

Net Interest Income

Net interest income totaled \$46.9 million for the six months ended June 30, 2023, as compared to \$25.5 million for the six months ended June 30, 2022. The increase in net interest income of \$21.4 million, or 84.0%, was primarily due to an increase in interest income offset by an increase in interest expense.

The increase in interest income was attributable to increases in loans and interest-bearing deposits, partially offset by a decrease in investment securities. The increase in interest income was also attributable to a rising interest rate environment as a result of the Federal Reserve's interest rate increases during 2023.

The increase in market interest rates in 2023 also caused an increase in our interest expense. As a result, the increase in interest expense for the six months ended June 30, 2023 was due to an increase in the cost of funds on our deposits, partially offset by a decrease in the cost of our borrowed money. The increase in interest expense was also due to an increase in our certificates of deposits and an increase in our savings and club deposits, offset by a decrease in our interest-bearing demand deposits and a decrease in our borrowed money.

Total interest and dividend income increased by \$32.1 million, or 114.2%, to \$60.2 million for the six months ended June 30, 2023 from \$28.1 million for the six months ended June 30, 2022. The increase was due to an increase in the average balance of interest earning assets of \$240.5 million, or 20.5%, to \$1.4 billion for the six months ended June 30, 2023 from \$1.2 billion for the six months ended June 30, 2022 and an increase in the yield on interest earning assets

by 372 basis points from 4.78% for the six months ended June 30, 2022 to 8.50% for the six months ended June 30, 2023.

Interest expense increased by \$10.7 million, or 405.7%, to \$13.4 million for the six months ended June 30, 2023 from \$2.6 million for the six months ended June 30, 2022. The increase in interest expense was due to an increase in the cost of interest bearing liabilities by 220 basis points from 0.85% for the six months ended June 30, 2022 to 3.05% for the six months ended June 30, 2023, and an increase in average interest bearing liabilities of \$253.4 million, or 40.6%, to \$877.8 million for the six months ended June 30, 2023 from \$624.4 million for the six months ended June 30, 2022.

Net interest margin increased by 229 basis points, or 52.9%, during the six months ended June 30, 2023 to 6.62% compared to 4.33% during the six months ended June 30, 2022.

Provision for Credit Losses

The Company recorded credit loss expenses totaling \$611,000 for the six months ended June 30, 2023 compared to no credit loss expense for the six months ended June 30, 2022. The credit loss expense of \$611,000 for the six months ended June 30, 2023 was comprised of credit loss expense for loans of \$725,000 and credit loss expense for held-to-maturity investment securities of \$3,000, partially offset by a credit loss expense reduction for off-balance sheet commitments of \$117,000.

We charged-off \$215,000 during the six months ended June 30, 2023 as compared to charge-offs of \$17,000 during the six months ended June 30, 2022. The charge-offs of \$214,000 during the six months ended June 30, 2023 comprised of a charge-off of \$159,000 related to three performing construction loans on the same project whereby we sold the loans to a third-party subsequent to June 30, 2023 at a loss of \$159,000. The remaining charge-offs of \$56,000 were against various unpaid overdrafts in our demand deposit accounts. The charge-offs of \$17,000 during the six months ended June 30, 2022 were against various unpaid overdrafts in our demand deposit accounts.

We recorded no recoveries from previously charged-off loans during the six months ended June 30, 2023 compared to recoveries of \$242,000 during the six months ended June 30, 2022, which was comprised of \$146,000 from a previously charged-off loan secured by a multi-family property, \$53,000 from a previously charged-off loan secured by a non-residential property, and \$43,000 regarding a previously charged-off loan secured by a mixed-use property.

Based on a review at June 30, 2023 of the loans that were in the loan portfolio, our off-balance sheet credit exposures, and our HTM investment securities, management believes that the allowances for these three components are maintained at a level that represents our best estimate of inherent losses in the loan portfolio, off-balance sheet credit exposures, and HTM investment securities that were both probable and reasonably estimable.

Management uses available information to establish the appropriate level of the three ACLs. Future additions or reductions to the three ACLs might be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our three ACLs might not be sufficient to cover actual credit losses, and future provisions for credit losses could materially adversely affect our operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our three ACLs. Such agencies may require us to recognize adjustments to the three ACLs based on their judgments about information available to them at the time of their examination.

Non-Interest Income

Non-interest income for the six months ended June 30, 2023 was \$2.1 million compared to non-interest income of \$594,000 for the six months ended June 30, 2022. The increase in total non-interest income of \$1.5 million, or 259.4%, was primarily due to an unrealized gain on equity securities of \$102,000 during the six months ended June 30, 2023 compared to an unrealized loss of \$1.1 million on equity securities during the six months ended June 30, 2022. The unrealized gain of \$102,000 on equity securities during the 2023 period was due to market interest rate volatility as the Federal Reserve continued to increase interest rates, which impacted the value of the equity securities during the six months ended June 30, 2023.

The increase in total non-interest income was also due to increases of \$407,000 in BOLI income, an increase of \$36,000 in other loan fees and service charges, and an increase of \$6,000 in other non-interest income, partially offset by a decrease of \$46,000 in gain on sale of fixed assets and a decrease of \$28,000 in investment advisory fees.

The increase in BOLI income was primarily due to two death claims totaling \$1.8 million on BOLI policies that resulted in additional BOLI income of \$404,000. The increase in other loan fees and service charges was due to an increase of \$50,000 in ATM and debit card usage fees, partially offset by a decrease of \$9,000 in deposit account fees and a decrease of \$6,000 in other loan fees and loan servicing fees.

Non-Interest Expense

Non-interest expense increased by \$2.8 million, or 20.0%, to \$17.1 million for the six months ended June 30, 2023 from \$14.2 million for the six months ended June 30, 2022. The increase resulted primarily from increases of \$1.9 million in salaries and employee benefits, \$435,000 in other operating expense, \$183,000 in advertising expense, \$154,000 in outside data processing expense, \$108,000 in occupancy expense, and \$38,000 in equipment expense, partially offset by a decrease of \$11,000 in real estate owned expense.

Salaries and employee benefits increased by \$1.9 million, or 26.0%, to \$9.4 million for the six months ended June 30, 2023 from \$7.4 million for the six months ended June 30, 2022 primarily due to an increase in number of full time equivalent personnel due to the hiring of additional personnel to support the growth of the Company, the amortization of expenses related to the 2022 Equity Incentive Plan awards of restricted stocks and options, and a decrease in loan origination expenses related to loan origination fees due to a decrease in loan originations.

Other non-interest expense increased by \$435,000, or 10.9%, to \$4.4 million for the six months ended June 30, 2023 from \$4.0 million for the six months ended June 30, 2022 due mainly to increases of \$328,000 in miscellaneous other non-interest expense, \$169,000 in directors compensation, \$148,000 in service contracts expense, \$28,000 in telephone expense, \$14,000 in insurance expense, and \$11,000 in office supplies. These increases were partially offset by decreases of \$121,000 in legal fees, \$83,000 in audit and accounting fees, \$39,000 in consulting fees, and \$20,000 in expenses related to the hiring of personnel.

The increase of \$328,000 in miscellaneous other non-interest expense was mainly due to an increase of \$176,000 in regulatory insurance premiums and assessments due to an increase in our total assets, an increase of \$139,000 in dues and subscriptions, an increase of \$28,000 in public company expense, an increase of \$7,000 in check and correspondence bank charges, an increase of \$5,000 in miscellaneous other non-interest expense, and an increase of \$3,000 in postage expense, partially offset by a decrease of \$30,000 in miscellaneous charge-offs.

The increase of \$169,000 in directors compensation was due to the amortized expense in 2023 but none in 2022 regarding the restricted stocks and stocks options granted to directors in connection with the 2022 Equity Incentive Plan.

Advertising expense increased by \$183,000, or 174.3%, to \$288,000 for the six months ended June 30, 2023 from \$105,000 for the six months ended June 30, 2022 due mainly to the resumption of advertising and promotional products to promote the opening of additional branch offices and to promote interest rates offered on our deposit products.

Outside data processing expense increased by \$154,000, or 16.8%, to \$1.1 million for the six months ended June 30, 2023 from \$915,000 for the six months ended June 30, 2022 due to the cost of operating an additional branch office and additional data processing services.

Occupancy expense increased by \$108,000, or 9.3%, to \$1.3 million for the six months ended June 30, 2023 from \$1.2 million for the six months ended June 30, 2022 primarily as a result of the cost of operating an additional branch office.

Equipment expense increased by \$38,000, or 6.7%, to \$604,000 for the six months ended June 30, 2023 from \$566,000 for the six months ended June 30, 2022 due to the purchases of additional equipment to support the Company's expansion.

Real estate owned expense decreased by \$11,000, or 21.2%, to \$41,000 for the six months ended June 30, 2023 from \$52,000 for the six months ended June 30, 2022 due to reduction in operating expenses to maintain the one real estate owned property.

Income Taxes. We recorded income tax expense of \$9.0 million and \$2.8 million for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, we had approximately \$770,000 and \$370,000, respectively, in tax exempt income. Our effective income tax rates were 28.7% and 23.6% for the six months ended June 30, 2023 and 2022, respectively.

Average Balances and Yields

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average daily balances of assets or liabilities, respectively, for the periods presented. Loan fees, including prepayment fees, are included in interest income on loans and are not material. Non-accrual loans are included in the average balances only. In addition, yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

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	Three Months Ended June 30,					
	2023			2022		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Loans receivable	\$ 1,341,597	\$ 30,494	9.09 %	\$ 997,983	\$ 14,412	5.78 %
Securities	39,967	198	1.98	42,641	160	1.50
Federal Home Loan Bank stock	928	21	9.05	1,239	17	5.49
Other interest-earning assets	<u>72,991</u>	<u>1,001</u>	<u>5.49</u>	<u>139,978</u>	<u>249</u>	<u>0.71</u>
Total interest-earning assets	1,455,483	31,714	8.27	1,181,841	14,838	5.02
Allowance for credit losses	(4,070)			(5,333)		
Non-interest-earning assets	<u>83,521</u>			<u>77,693</u>		
Total assets	<u>\$ 1,534,934</u>			<u>\$ 1,254,201</u>		
Interest bearing demand	\$ 85,919	\$ 483	2.25 %	\$ 115,097	\$ 190	0.66 %
Savings and club accounts	267,368	1,836	2.75	214,840	354	0.66
Certificates of deposit	<u>560,702</u>	<u>5,290</u>	<u>3.77</u>	<u>262,703</u>	<u>616</u>	<u>0.94</u>
Interest-bearing deposits	913,989	7,609	3.33	592,640	1,160	0.78
Borrowed money	\$ 14,000	87	2.49	21,000	136	2.59
Interest-bearing liabilities	927,989	7,696	3.32	613,640	1,296	0.84
Non-interest-bearing demand	322,722			368,359		
Other non-interest-bearing liabilities	<u>17,224</u>			<u>16,108</u>		
Total liabilities	1,267,935			998,107		
Equity	<u>266,999</u>			<u>256,094</u>		
Total liabilities and equity	<u>\$ 1,534,934</u>			<u>\$ 1,254,201</u>		
Net interest income/interest spread	\$ 24,018	5.40 %		\$ 13,542	4.18 %	
Net interest margin		6.60 %				4.58 %
Net interest-earning assets	<u>\$ 527,494</u>			<u>\$ 568,201</u>		
Average interest-earning assets to interest-bearing liabilities	<u>156.84 %</u>			<u>192.60 %</u>		
	Six Months Ended June 30,					
	2023			2022		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Loans receivable	\$ 1,305,922	\$ 58,069	8.89 %	\$ 993,879	\$ 27,473	5.53 %
Securities	42,232	409	1.94	40,128	301	1.50
Federal Home Loan Bank stock	1,039	43	8.28	1,361	34	5.00
Other interest-earning assets	<u>67,269</u>	<u>1,705</u>	<u>5.07</u>	<u>140,582</u>	<u>304</u>	<u>0.43</u>
Total interest-earning assets	1,416,462	60,226	8.50	1,175,950	28,112	4.78
Allowance for credit losses	(4,760)			(5,308)		
Non-interest-earning assets	<u>82,217</u>			<u>76,927</u>		
Total assets	<u>\$ 1,493,919</u>			<u>\$ 1,247,569</u>		
Interest bearing demand	\$ 88,047	\$ 911	2.07 %	\$ 116,228	\$ 359	0.62 %
Savings and club accounts	276,886	3,749	2.71	209,080	681	0.65
Certificates of deposit	<u>496,338</u>	<u>8,501</u>	<u>3.43</u>	<u>275,612</u>	<u>1,297</u>	<u>0.94</u>
Interest-bearing deposits	861,271	13,161	3.06	600,920	2,337	0.78
Borrowed money	<u>16,514</u>	<u>209</u>	<u>2.53</u>	<u>23,514</u>	<u>307</u>	<u>2.61</u>
Interest-bearing liabilities	877,785	13,370	3.05	624,434	2,644	0.85
Non-interest-bearing demand	333,948			352,689		
Other non-interest-bearing liabilities	<u>16,208</u>			<u>15,352</u>		
Total liabilities	1,227,941			992,475		
Equity	<u>265,978</u>			<u>255,094</u>		
Total liabilities and equity	<u>\$ 1,493,919</u>			<u>\$ 1,247,569</u>		
Net interest income/interest spread	\$ 46,856	5.46 %		\$ 25,468	3.93 %	
Net interest margin		6.62 %				4.33 %
Net interest-earning assets	<u>\$ 538,677</u>			<u>\$ 551,516</u>		
Average interest-earning assets to interest-bearing liabilities	<u>161.37 %</u>			<u>188.32 %</u>		

Rate/Volume Analysis

The following tables set forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns.

		Three Months Ended 6/30/2023		
		Compared to		
		Three Months Ended 6/30/2022		
		Increase (Decrease)		
		Due to		
		Volume	Rate	Total
(Dollars in thousands)				
Interest income:				
Loans receivable		\$ 6,030	\$ 10,052	\$ 16,082
Securities		(61)	99	38
Federal Home Loan Bank stock		(24)	28	4
Other interest-earning assets		(840)	1,592	752
Total		\$ 5,105	\$ 11,771	\$ 16,876
Interest expense:				
Interest bearing demand deposit		\$ (321)	\$ 614	\$ 293
Savings accounts		106	1,376	1,482
Certificates of deposits		1,275	3,399	4,674
Borrowed money		(44)	(5)	(49)
Total		1,016	5,384	6,400
Net change in net interest income		<u>\$ 4,089</u>	<u>\$ 6,387</u>	<u>\$ 10,476</u>
		Six Months Ended 6/30/2023		
		Compared to		
		Six Months Ended 6/30/2022		
		Increase (Decrease)		
		Due to		
		Volume	Rate	Total
(Dollars in thousands)				
Interest income:				
Loans receivable		\$ 10,412	\$ 20,184	\$ 30,596
Securities		16	92	108
Federal Home Loan Bank stock		(21)	30	9
Other interest-earning assets		(540)	1,941	1,401
Total		\$ 9,867	\$ 22,247	\$ 32,114
Interest expense:				
Interest bearing demand deposit		\$ (264)	\$ 816	\$ 552
Savings accounts		286	2,782	3,068
Certificates of deposits		1,677	5,527	7,204
Borrowed money		(89)	(9)	(98)
Total		1,610	9,116	10,726
Net change in net interest income		<u>\$ 8,257</u>	<u>\$ 13,131</u>	<u>\$ 21,388</u>

Asset Quality

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

	June 30, 2023	December 31, 2022
	(Dollars in thousands)	
Total non-accrual loans	\$ 4,353	\$ —
Total accruing loans past due 90 days or more	—	—
Total non-performing loans	4,353	—
Real estate owned	1,456	1,456
Total non-performing assets	<u>\$ 5,809</u>	<u>\$ 1,456</u>
Total non-performing loans to total loans	0.31 %	— %
Total non-performing assets to total assets	0.36 %	0.10 %

Non-performing assets totaled \$5.8 million at June 30, 2023 compared to \$1.5 million at December 31, 2022. At June 30, 2023, we had two non-performing, non-accrual construction loans totaling \$4.4 million secured by the same project located in the Bronx, New York. The other non-performing assets consisted of one foreclosed property at June 30, 2023 and December 31, 2022.

There were no nonaccrual loans at December 31, 2022. During the six months ended June 30, 2023, we did not collect any interest income from the loans that were in non-accrual status. We did not collect any interest income from loans that were in non-accrual status in 2022.

From time to time, as part of our loss mitigation strategy, we may renegotiate the loan terms based on the economic or legal reasons related to the borrower's financial difficulties. There were no new loan modifications during the six months ended June 30, 2023 or 2022 or during the year ended December 31, 2022. TDRs may be considered to be non-performing and if so are placed on non-accrual, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms of the restructured loan.

The two TDRs with an aggregate balance of \$855,000 at December 31, 2022 were performing in accordance with their restructured terms (generally at least six consecutive months) and were sold to a third party on January 5, 2023 at a loss of \$86,000.

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The following table sets forth an analysis of the activity in the allowance for credit losses related to loans for the periods indicated:

	June 30 2023	December 31, 2022
	(Dollars In Thousands)	
Allowance at beginning of period	\$ 5,474	\$ 5,242
Impact of adopting ASC 326	(1,584)	—
Provision for credit losses	725	439
Net Charge-offs:		
Residential real estate loans:		
One- to four-family	—	—
Multifamily	—	—
Mixed-use	—	(103)
Total residential real estate loans	—	(103)
Non-residential real estate loans	—	(53)
Construction loans	159	328
Commercial and industrial loans	—	—
Consumer loans	56	35
Total net charge-offs	215	207
Allowance at end of period	\$ 4,400	\$ 5,474
Total loans outstanding	\$ 1,391,543	\$ 1,217,321
Average loans outstanding	1,341,597	1,054,577
Ratio of allowance to non-performing loans	1.01 %	— %
Ratio of allowance to total loans	0.32 %	0.45 %
Ratio of net charge-offs to average loans	0.02 %	0.02 %
Non-performing loans	\$ 4,353	\$ —

The Company's allowance for credit losses related to loans totaled \$4.4 million, or 0.32% of total loans as of June 30, 2023 compared to \$5.5 million, or 0.45% of total loans as of December 31, 2022. In addition, the Company's allowance for credit losses related to off-balance sheet commitments totaling \$1.5 million and an allowance for credit losses related to held-to-maturity debt securities totaling \$135,000 as of June 30, 2023 compared to none at December 31, 2022.

The allowance for credit losses related to loans decreased by \$1.1 million to \$4.4 million at June 30, 2023 from \$5.5 million at December 31, 2022. The decrease in the allowances for credit losses was due primarily to the adoption of CECL which reduced the allowance by \$1.6 million and charge-offs totaling \$215,000 against various unpaid overdrafts in our demand deposit accounts and one construction loan, partially offset by provision for credit losses related to loans totaling \$725,000 at June 30, 2023.

The allowance for credit losses related to off-balance sheet commitments of \$1.4 million comprised of the adoption of CECL totaling \$1.6 million, partially offset by a credit loss expense reduction of \$117,000 at June 30, 2023.

The allowance for credit losses related to held-to-maturity of debt securities of \$135,000 comprised of the adoption of CECL totaling \$132,000 and credit loss expense of \$3,000 at June 30, 2023.

Liquidity and Capital Resources

We maintain liquid assets at levels we believe are adequate to meet our liquidity needs. We established a liquidity ratio policy that identify three liquidity ratios consisting of (1) Cash/Deposits & Short Term Borrowings ("Cash Liquidity"), (2) Cash & Investments/Deposits & Short Term Borrowings ("On Balance Sheet Liquidity"), and (3) Cash & Investments & Borrowing Capacity/Deposits & Short Term Borrowings ("On Balance Sheet Liquidity & Borrowing Capacity") to assist in the management of our liquidity. We also establish targets of 2.0% for the Cash Liquidity ratio, 8.0% for the On Balance Sheet Liquidity ratio, and 20.0% for the On Balance Sheet Liquidity & Borrowing Capacity ratio.

Our Cash Liquidity ratio, On Balance Sheet Liquidity ratio, and On Balance Sheet Liquidity & Borrowing Capacity ratio averaged 7.2%, 10.6%, and 13.8%, respectively, for the six months ended June 30, 2023 compared to 11.2%, 15.5%, and 19.0%, respectively, for the year ended December 31, 2022. We adjust our liquidity levels to fund deposit outflows, pay real estate taxes on real estate loans, repay our borrowings, and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our liquidity ratios cannot be calculated using amounts disclosed in our consolidated financial statements, as many of the calculations involve monthly, quarterly or annual averages. To calculate our liquidity ratios, the average liquidity base from the prior month is used as the denominator to calculate a daily liquidity ratio. The liquidity base consists of savings account balances, certificates of deposit balances, checking and money market balances, deposit loans and borrowings. The daily balances of these components are averaged to arrive at the liquidity base for the month, and the daily cash balances in selected general ledger accounts are used to derive our liquidity position. A daily liquidity ratio is calculated using the liquidity for the day divided by the prior month's average liquidity base. At the end of each month, a monthly liquidity position is calculated using the average liquidity position for the month divided by the prior month's average liquidity base. To calculate quarterly and annual liquidity ratios, we take the average liquidity for the three- or twelve-month period, respectively, and average it.

Our primary sources of liquidity are deposits, prepayment of loans and mortgage-backed securities, maturities of investment securities, other short-term investments, earnings, and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included with our Consolidated Financial Statements.

Our primary investing activities are the origination of construction loans, commercial and industrial loans, multifamily loans, and to a lesser extent, mixed-use real estate loans and other loans. For the six months ended June 30, 2023 and 2022, our loan originations totaled \$448.0 million and \$307.4 million, respectively. Cash received from the maturities and pay-downs on securities totaled \$10.5 million and \$737,000 for the six months ended June 30, 2023 and 2022, respectively. We did not purchase any securities during the six months ended June 30, 2023 compared to purchase of \$10.0 million in investment securities during the six months ended June 30, 2022.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of New York to provide advances. As a member of the Federal Home Loan Bank of New York, we are required to own capital stock in the Federal Home Loan Bank of New York and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. We had an available borrowing limit of \$32.6 million and \$31.5 million from the Federal Home Loan Bank of New York as of June 30, 2023 and December 31, 2022, respectively. There were \$14.0 million and \$21.0 million in Federal Home Loan Bank advances at June 30, 2023 and December 31, 2022, respectively.

In addition, we are party to a loan agreement with ACBB under which we can borrow up to \$8.0 million in short-term borrowings. There were no outstanding borrowings with ACBB at June 30, 2023 and December 31, 2022.

At June 30, 2023, we had unfunded commitments on construction loans of \$513.7 million, outstanding commitments to originate loans of \$164.2 million, unfunded commitments under lines of credit of \$127.5 million, and unfunded standby letters of credit of \$10.3 million. At June 30, 2023, certificates of deposit scheduled to mature in less than one year totaled \$466.3 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In the event a significant portion of our deposits are not retained by us, we will have to utilize other funding sources, such as various types of sourced deposits, and/or Federal Home Loan Bank advances, in order to maintain our level of assets. Alternatively, we

could reduce our level of liquid assets, such as our cash and cash equivalents. In addition, the cost of such deposits may be significantly higher or lower depending on market interest rates at the time of renewal.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its stockholders and for the repurchase, if any, of its shares of common stock. At June 30, 2023, the Company had liquid assets of \$6.1 million and \$12.2 million in loan participations originated by the Bank which are held by the Company.

Off-Balance Sheet Arrangements

For the six months ended June 30, 2023, we did not engage in any off-balance sheet transactions reasonably likely to have a material adverse effect on our financial condition, results of operations or cash-flows.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of NorthEast Community Bancorp have been prepared in accordance with GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk is defined as the exposure to current and future earnings and capital that arises from adverse movements in interest rates. Depending on a bank's asset/liability structure, adverse movements in interest rates could be either rising or falling interest rates. For example, a bank with predominantly long-term fixed-rate assets and short-term liabilities could have an adverse earnings exposure to a rising rate environment. Conversely, a short-term or variable-rate asset base funded by longer-term liabilities could be negatively affected by falling rates. This is referred to as re-pricing or maturity mismatch risk.

Interest rate risk also arises from changes in the slope of the yield curve (yield curve risk), from imperfect correlations in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics (basis risk), and from interest rate related options embedded in our assets and liabilities (option risk).

Our objective is to manage our interest rate risk by determining whether a given movement in interest rates affects our net interest income and the market value of our portfolio equity in a positive or negative way and to execute strategies to maintain interest rate risk within established limits. The results at June 30, 2023 indicate the level of risk within the parameters of our model. Our management believes that the June 30, 2023 results indicate a profile that reflects interest rate risk exposures in both rising and declining rate environments for both net interest income and economic value.

Model Simulation Analysis. We view interest rate risk from two different perspectives. The traditional accounting perspective, which defines and measures interest rate risk as the change in net interest income and earnings caused by a change in interest rates, provides the best view of short-term interest rate risk exposure. We also view interest rate risk from an economic perspective, which defines and measures interest rate risk as the change in the market value of portfolio equity caused by changes in the values of assets and liabilities, which fluctuate due to changes in interest rates. The market value of portfolio equity, also referred to as the economic value of equity, is defined as the present value of future cash flows from existing assets, minus the present value of future cash flows from existing liabilities.

These two perspectives give rise to income simulation and economic value simulation, each of which presents a unique picture of our risk of any movement in interest rates. Income simulation identifies the timing and magnitude of changes in income resulting from changes in prevailing interest rates over a short-term time horizon (usually one or two years). Economic value simulation reflects the interest rate sensitivity of assets and liabilities in a more comprehensive fashion, reflecting all future time periods. It can identify the quantity of interest rate risk as a function of the changes in the economic values of assets and liabilities, and the corresponding change in the economic value of

equity of NorthEast Community Bank. Both types of simulation assist in identifying, measuring, monitoring and controlling interest rate risk and are employed by management to ensure that variations in interest rate risk exposure will be maintained within policy guidelines.

We produce these simulation reports and discuss them at our Asset and Liability Committee meetings on at least a quarterly basis. The simulation reports compare baseline (no interest rate change) to the results of an interest rate shock, to illustrate the specific impact of the interest rate scenario tested on income and equity. The model, which incorporates asset and liability rate information, simulates the effect of various interest rate movements on income and equity value. The reports identify and measure our interest rate risk exposure present in our current asset/liability structure. Management considers both a static (current position) and dynamic (forecast changes in volume) analysis as well as non-parallel and gradual changes in interest rates and the yield curve in assessing interest rate exposures.

If the results produce quantifiable interest rate risk exposure beyond our limits, then the testing will have served as a monitoring mechanism to allow us to initiate asset/liability strategies designed to reduce and therefore mitigate interest rate risk. The table below sets forth an approximation of our interest rate risk exposure. The simulation uses projected repricing of assets and liabilities at June 30, 2023. The income simulation analysis presented represents a one-year impact of the interest scenario assuming a static balance sheet. Various assumptions are made regarding the prepayment speed and optionality of loans, investment securities and deposits, which are based on analysis and market information. The assumptions regarding optionality, such as prepayments of loans and the effective lives and repricing of non-maturity deposit products, are documented periodically through evaluation of current market conditions and historical correlations to our specific asset and liability products under varying interest rate scenarios.

Because the prospective effects of hypothetical interest rate changes are based on a number of assumptions, these computations should not be relied upon as indicative of actual results. While we believe such assumptions to be reasonable, assumed prepayment rates may not approximate actual future prepayment activity on mortgage-backed securities or agency issued collateralized obligations (secured by one- to four-family loans and multifamily loans). Further, the computation does not reflect any actions that management may undertake in response to changes in interest rates and assumes a constant asset base. Management periodically reviews the rate assumptions based on existing and projected economic conditions and consults with industry experts to validate our model and simulation results.

The table below sets forth, as of June 30, 2023, NorthEast Community Bank's net portfolio value, the estimated changes in our net portfolio value and net interest income that would result from the designated instantaneous parallel changes in market interest rates.

Change in Interest Rates (Basis Points)	Twelve Month		
	Net Interest Income	Percent of Change	Net Portfolio Value
	Estimated NPV	Percent of Change	
+200	16.80 %	\$ 312,954	5.38 %
+100	8.45	306,097	3.08
0	—	296,965	—
-100	(9.84)	284,561	(4.18)
-200	(19.67)%	271,243	(8.66)%

As of June 30, 2023, based on the scenarios above, net interest income would increase by approximately 8.45% to 16.80%, over a one-year time horizon in a rising interest rate environment. One-year net interest income would decrease by approximately 9.84% to 19.67% in a declining interest rate environment over the same period.

Economic value at risk would be positively impacted by a rise in interest rates and negatively impacted by a decline in interest rates. We have established an interest rate floor of zero percent for measuring interest rate risk. The difference between the two results reflects the relatively long terms of a portion of our assets which is captured by the economic value at risk but has less impact on the one year net interest income sensitivity.

Overall, our June 30, 2023 results indicate that we are adequately positioned with an acceptable net interest income and economic value at risk and that all interest rate risk results continue to be within our policy guidelines.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure (1) that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms; and (2) that they are alerted in a timely manner about material information relating to the Company required to be filed in its periodic Securities and Exchange Commission filings.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition.

Item 1A. Risk Factors

For information regarding the Company's risk factors, refer to "*Item 1A: Risk Factors*" in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on March 30, 2023 and "*Part II, Item 1A: Risk Factors*" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, filed with the Securities and Exchange Commission on May 23, 2023. As of June 30, 2023, the risk factors of the Company have not changed materially from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023.

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

On May 30, 2023, the Company announced that its Board of Directors had authorized a stock repurchase program to acquire up to 1,509,218 shares, or 10%, of the Company's currently issued and outstanding common stock commencing on May 30, 2023. The stock repurchase program is the Company's second repurchase program since completing its second-step conversion and related stock offering in July 2021.

The following table provides information on repurchases by the Company of its common stock under the Company's stock repurchase program during the three months ended June 30, 2023:

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
April 1 - 30, 2023	-	\$ -	-	1,509,218
May 1 - 31, 2023	25,041	13.33	25,041	1,484,177
June 1 - 30, 2023	30,200	13.63	30,200	1,453,977
Total	<u>55,241</u>		<u>55,241</u>	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description
10.1†	Employment Agreement, dated as of June 22, 2023, between NorthEast Community Bancorp, Inc., NorthEast Community Bank and Donald S. Hom*
31.1†	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of NorthEast Community Bancorp, Inc.
31.2†	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of NorthEast Community Bancorp, Inc.
32.0†	Certification of Chief Executive Officer and Chief Financial Officer of NorthEast Community Bancorp, Inc. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0†	The following materials from the Company's Quarterly Report to Stockholders on Form 10-Q for the quarter ended June 30, 2023, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
101.INST†	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCHT	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEFT	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRET	XBRL Taxonomy Extension Presentation Linkbase Document
104†	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

† Filed herewith.

* Management contract or compensatory plan, contract or arrangement.

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, duly authorized.

Date: August 10, 2023

NORTHEAST COMMUNITY BANCORP, INC.

By: /s/ Kenneth A. Martinek

Name: Kenneth A. Martinek

Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Donald S. Hom

Name: Donald S. Hom

Title: Executive Vice President and Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into on June 22, 2023, by and between **NORTHEAST COMMUNITY BANCORP, INC.**, a Maryland corporation (the "Company"), **NORTHEAST COMMUNITY BANK** (the "Bank"), a New York-chartered stock savings bank headquartered in White Plains, New York, and **DONALD S. HOM** (the "Executive").

Background

A. The Company and the Bank wish to employ the Executive on the terms and conditions provided herein, and the Executive wishes to continue in such capacity on the terms and conditions provided herein.

B. The Company and the Bank wish to encourage the Executive to devote his full time and attention to the faithful performance of his responsibilities and pursuing the best interests of the Company and the Bank.

C. The Company and the Bank employ the Executive in a position of trust and confidence, and the Executive has become acquainted with the Company's Business, its officers and employees, its strategic and operating plans, its business practices, processes, and relationships, the needs and expectations of its Customers and Prospective Customers, and its trade secrets and other property, including Confidential Information ("Company's Business," "Customers" and "Confidential Information" are defined in Section 11 below).

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement agree as follows:

1. **Term.** For purposes of this Agreement, the "Effective Date" shall be June 22, 2023 or such other date as the parties may agree. The initial term of this Agreement shall begin on the Effective Date, and shall continue for thirty-six (36) months; provided, however, that beginning on the first anniversary of the Effective Date, and on each anniversary of the Effective Date thereafter, the term of this Agreement shall be extended by twelve (12) months, unless the disinterested members of the boards of directors of the Company and the Bank (the "Company Board" and "Bank Board", respectively) or the Executive shall have provided notice to the other party at least sixty (60) days before such date that the term shall not be extended. The period during which the Executive is employed by the Company and the Bank pursuant to this Agreement, including all extensions thereof, is hereinafter referred to as the "Term." Notwithstanding the preceding provisions of this Section, if a Change of Control occurs during the Term, the Term shall not end before the first anniversary of the Change of Control; provided, however, this sentence shall apply only to the first Change of Control to occur while this Agreement is in effect. The Bank Board shall conduct a comprehensive performance evaluation and review of the Executive annually for purposes of determining whether to extend the Agreement, and the rationale and results thereof shall be included in the minutes of the meeting of the Bank Board.

2. **Position and Duties.** At all times during the Term, the Executive shall (i) serve as Chief Financial Officer of the Company and the Bank and, in such capacity, shall perform such duties and have such responsibilities as is typical for such positions, as well as any other reasonable

duties as may be assigned to him from time to time by the Chief Executive Officer of the Bank, and (ii) diligently and conscientiously devote substantially all of his business time, energy, and ability to his duties and the business of the Company and the Bank and will not engage in any other business, profession, or occupation for compensation or otherwise which would conflict or materially interfere with the performance of such services either directly or indirectly without the prior written consent of the Bank Board, and (iii) comply with all directions from the Company Board and the Bank Board (other than directions that would require an illegal or unethical act or omission) and all applicable policies and regulations of the Company and the Bank. Executive shall report directly to the Company Board and Bank Board. Notwithstanding the foregoing, the Executive will be permitted to (a) with the prior written consent of the Bank Board (not to be unreasonably withheld) act or serve as a director, trustee, committee member, or principal of any type of business, civic or charitable organization as long as such activities are disclosed in writing to the Bank Board, and (b) purchase or own less than two percent (2%) of the publicly traded securities of any entity which has the potential to be a competitor of the Company or the Bank or an unlimited ownership interest in any entity which is not similar to and does not have the potential to compete with the Company or the Bank; provided that, such ownership represents a passive investment and that the Executive is not a controlling person of, or a member of a group that controls, such entity; and provided further that, the activities described in clauses (a) and (b), in each case and in the aggregate, do not materially interfere with the performance of the Executive's material duties and responsibilities as provided hereunder. The Executive has disclosed all such business, civic, and charitable organizations for which he serves as of the Effective Date, and it is hereby acknowledged that, as of the Effective Date, the same do not currently conflict with, and are not expected to interfere with, the Executive's duties hereunder. The Executive is the most senior executive officer of the Company and the Bank. The Executive's duties for the Company and the Bank include responsibility for managing the business, operations, and affairs of the Company and the Bank, including the implementation of strategic goals and objectives, subject to supervision and oversight by the Bank Board and the Company Board or the committee of either such Board authorized to act on such Board's behalf. For purposes of this Agreement, all references to either the Company Board or the Bank Board shall be deemed to include references to all such committees. The Executive shall be responsible overall for the conduct of the business of the Company and the Bank.

3. Compensation, Benefits and Expenses. During the Term, the Bank shall compensate the Executive for his services as provided in this Section 3. Unless otherwise determined by the Company Board, all payments and benefits provided in this Agreement shall be paid or provided solely by the Bank. Notwithstanding anything in this Agreement to the contrary, no provision of this Agreement shall be construed so as to result in the duplication of any payment or benefit. Unless otherwise determined by the Company Board, the Company's sole obligation under this Agreement shall be to unconditionally guarantee the payment and provision of all amounts and benefits due hereunder to Executive, and the affirmative obligations of the Company as set forth at Section 3(h), herein, with respect to Indemnification, and, if such amounts and benefits due from the Bank are not timely paid or provided by the Bank, such amounts and benefits shall be paid or provided by the Company.

(a) **Base Salary.** The Bank shall pay the Executive an annual base salary at the rate of \$285,000 payable in substantially equal installments in accordance with the Bank's customary payroll practices regarding the payment of base salary to executives but no less frequently than monthly (except to the extent the Executive has properly deferred such base salary pursuant to a Bank deferred compensation plan or arrangement, if any). The Executive's base salary shall be

reviewed at least annually by the Bank Board and the Bank Board may increase but not decrease the base salary during the Term. In the absence of action by the Bank Board, the Executive shall continue to receive an annual base salary at the rate specified above on the Effective Date or, if another rate has been established under this Section 3(a), the rate last properly established by action of the Bank Board under this Section 3(a). The Executive's annual base salary, as in effect from time to time, is hereinafter referred to as "Base Salary."

(b) **Annual Bonuses.** For each completed fiscal year of the Bank ("Fiscal Year") during the Term, the Executive shall have the opportunity to earn an annual bonus pursuant to an incentive plan or program ("AIP"), based on achievement of annual performance goals established by the Compensation Committee of the Board of Directors of the Bank in its discretion (an "Annual Bonus") with a target amount determined annually based on review of market data for similarly situated executives.

(c) **Long-Term Equity Incentive Awards.** The Executive will be eligible for time-based and performance-based awards under the Company's shareholder-approved long-term equity incentive equity plan ("Equity Plan").

(d) **Employee Benefits.** During the Term, the Executive will be entitled to participate in or receive benefits under all employee benefit plans, programs, arrangements and practices in which Executive was participating or otherwise deriving benefit immediately prior to the Effective Date, including but not limited to the Bank's tax-qualified pension plan, tax-qualified 401(k) plan, supplemental non-qualified deferred compensation plans, medical plan, dental plan, vision plan, life insurance plan, short-term and long-term disability plans, fringe benefit arrangements, and executive perquisite arrangements (including, but not limited to, automobile and club memberships and dues) (collectively, the "Benefit Plans"). During the Term, and to the extent consistent with applicable law, the Bank will not, without the Executive's prior written consent, make any changes to any material Benefit Plan that would be materially adversely affect the Executive's rights or benefits under such Benefit Plan unless an equitable arrangement (embodied in an ongoing or substitute arrangement) is made with respect to such change.

(f) **Paid Time Off.** During the Term, the Executive shall be eligible for paid time off during a calendar year (prorated for partial years) in accordance with the Bank's paid time off policies, as in effect from time to time.

(g) **Business Expenses/Automobile.** The Executive shall be eligible for reimbursement of all reasonable and necessary out-of-pocket business, entertainment and travel expenses incurred by the Executive in connection with the performance of the Executive's duties hereunder in accordance with the Bank's expense reimbursement policies and procedures. In addition, during the Term the Bank will provide Executive with an automobile allowance that approximates the expense of a Bank-provided automobile and related insurance, maintenance and fuel costs. Executive will comply with reasonable reporting and expense limitations as the Bank may establish from time to time.

(h) **Indemnification.** The Bank and the Company shall provide the Executive (including his heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at their expense and each such party shall indemnify the Executive (and his heirs, executors and administrators) to the fullest extent permitted under applicable law against all expenses and liabilities reasonably incurred by him in connection with or

arising out of any action, suit or proceeding in which he may be involved by reason of his having been a director or officer of the Company or the Bank (whether or not he continues to be a director or officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorneys' fees and the costs of reasonable settlements.

4. Termination of Employment.

(a) Subject to its payment obligations under this Section and Section 5 or 6, if applicable, the Company and the Bank may terminate the Executive's employment with the Company and the Bank and this Agreement at any time, with or without Cause (as defined in subsection (b) below), by providing at least thirty (30) days prior written notice (with the exception of a termination for Cause, for which no prior written notice is required) setting forth the provision of the Agreement under which the Company and the Bank intend to terminate the Executive's employment and that satisfies any additional specific notice provisions under such provision. The Executive may voluntarily terminate his employment with the Company and the Bank and this Agreement at any time, with or without Good Reason (as defined in subsection (c) below), by providing at least thirty (30) days prior written notice to the Company and the Bank setting forth the provision of the Agreement under which the Executive intends to terminate the Executive's employment and that satisfies any additional specific notice provisions under such provision. Upon termination of the Executive's employment and this Agreement during the Term, the Executive shall be entitled to the following in addition to any benefits payable under Section 5 or 6, as applicable, and shall have no further rights to any compensation or any other benefits from the Company or the Bank or any other affiliate of the Company:

- (i) Any earned but unpaid Base Salary through the effective date of the Executive's termination of employment with the Company and the Bank (the "Termination Date"), paid in accordance with Section 3(a).
- (ii) Provided that the Executive applies for reimbursement in accordance with the Bank's established reimbursement policies (within the period required by such policies but under no circumstances less than thirty (30) days after his Termination Date), the Bank shall pay the Executive any reimbursements to which he is entitled under such policies.
- (iii) Any benefits (other than severance) payable to the Executive under any of the Bank's incentive compensation or employee benefit plans or programs shall be payable in accordance with the provisions of those plans or programs.
- (iv) All rights to indemnification and directors and officers liability insurance provided under Section 3(h).

Upon termination of the Executive's employment hereunder for any reason, the Executive shall be deemed to have resigned from all positions that the Executive holds as an officer or member of the board of directors of the Company or the Bank or of any other affiliate of the Company.

(b) For purposes of this Agreement, "Cause" means the occurrence of any of the following during the Term:

(i) the Executive's personal dishonesty, act or failure to act constituting willful misconduct or gross negligence that is materially injurious to the Company or the Bank or their reputation, breach of fiduciary duty involving personal profit, or willful violation of any law, rule, regulation (other than traffic violations or similar offenses), final cease and desist order;

(ii) the Executive's material failure to perform the duties of his employment with the Company or the Bank (except in the case of a termination of the Executive's employment for Good Reason or on account of the Executive's physical or mental inability to perform such duties) and the failure to correct such failure within thirty (30) days after receiving written notice from the Bank specifying such failure in detail;

(iii) the Executive's willful failure to comply with any valid and legal written directive of the Company Board or the Bank Board;

(iv) the Executive's willful and material violation of the Company's or the Bank's code of ethics or conduct policies which results in material harm to the Company or the Bank;

(v) the Executive's failure to follow the policies and standards of the Company, the Bank or any affiliate of the Company or the Bank as the same shall exist from time to time, provided that the Executive shall have received written notice from the Company or the Bank or the relevant affiliate of such failure and such failure shall have continued or recurred for ten (10) days following the date of such notice;

(vi) the written requirement or direction of a federal or state regulatory agency having jurisdiction over the Company or the Bank or any other affiliate of the Company that the Executive's employment with the Company or the Bank be terminated;

(vii) the Executive's conviction of or plea of nolo contendere to (i) a felony or (ii) a lesser criminal offense involving dishonesty, breach of trust, or moral turpitude; or

(viii) the Executive's intentional breach of a term, condition, or covenant of this Agreement that results in material harm to the Company or the Bank and the failure to correct such violation within thirty (30) days after receipt of written notice from the Bank specifying such breach in detail.

For purposes of this definition, no act or failure to act shall be considered "willful" if the Executive acted or failed to act either (i) in good faith or (ii) with a reasonable belief that his act or failure to act was not opposed to the Company's and Bank's best interests.

(c) For purposes of this Agreement, "Good Reason" means the occurrence of any of the following during the Term without the express written consent of the Executive:

(i) the material reduction of Executive's base compensation (including target bonus),

(ii) the material reduction of Executive's duties and responsibilities as set forth herein (including material reduction in status, material reduction in offices and/or a requirement to report to any person or entity other than the Boards of Directors of the Company and the Bank),

- (iii) a material breach of this Agreement by the Bank or the Company, or
- (iv) the relocation of Executive's principal place of employment that increases Executive's one-way commute by more than thirty (30) miles.

5. Non-Change of Control Severance Benefit.

(a) Subject to (i) the Executive's timely execution of a Release in accordance with Section 18, (ii) the expiration of any applicable waiting periods contained herein, and (iii) the following provisions of this Section 5, the Bank shall provide the Executive with the payments and benefits set forth in this Section 5 if, during the Term and before the occurrence of a Change of Control, either (1) the Company and the Bank terminate the Executive's employment with the Company and the Bank and this Agreement other than pursuant to Section 8, or (2) the Executive terminates his employment with the Company and the Bank and this Agreement for Good Reason pursuant to Section 9. Notwithstanding the preceding provisions of this subsection (a), the Executive shall not be entitled to severance benefits pursuant to this Section 5 if he is entitled to severance benefits pursuant to Section 6. Any amount payable to the Executive pursuant to this Section 5 is in addition to amounts already owed to the Executive by the Bank and is in consideration of the covenants set forth in this Agreement and/or the Release.

(b) The Bank shall pay to the Executive an amount equal to three (3) times the sum of Executive's Base Salary and Target Bonus in effect on the Termination Date, with such amount paid as salary continuation in substantially equal installments over the thirty-six (36) month period following the Termination Date in accordance with the Bank's customary payroll practices regarding the payment of base salary to executives but no less frequently than monthly (i.e., as if the Executive were still employed and receiving Base Salary pursuant to Section 3(a) of this Agreement), except that the first payment shall be made within 60 days following the Termination Date and shall include all installments that would have been paid earlier had the installment stream commenced immediately following the Termination Date.

(c) If the Executive timely and properly elects continued Bank-provided group health plan coverage pursuant to the Consolidated Omnibus Reconciliation Act of 1985, as amended ("COBRA"), the Bank shall reimburse the Executive in an after-tax amount (determined using an assumed aggregate tax rate of 40%) equal to the monthly COBRA premium paid by the Executive for such coverage less the active employee premium for such coverage. Executive shall be eligible to receive such reimbursement until the earliest of: (i) the period of time used to calculate the Executive's severance pay pursuant to Section 5(b); (ii) the date Executive is no longer eligible to receive COBRA continuation coverage; or (iii) the date on which Executive either receives or becomes eligible to receive substantially similar coverage from another employer.

(d) The Bank shall pay to the Executive any unpaid Annual Bonus for the completed Fiscal Year preceding the Fiscal Year in which the Termination Date occurs, calculated by taking into account the degree of achievement of the applicable objective performance goals for such preceding Fiscal Year (the "Prior Year Bonus"), in a lump sum on the date on which the Annual Bonus would have been paid to the Executive but for the Executive's termination of employment.

(e) The treatment of any outstanding Equity Plan awards shall be determined in accordance with the terms of the applicable Equity Plan and the applicable award agreements evidencing such awards.

6. **Change of Control Severance Benefit.**

(a) Subject to (i) the expiration of any applicable waiting periods contained herein, and (ii) the following provisions of this Section 6, the Bank shall provide the Executive with the payments and benefits set forth in this Section 6, in lieu of severance payments or benefits under Section 5, if, during the Term and concurrent with or within twenty-four (24) months after a Change of Control (as defined in subsection (g) below), either (A) the Company and the Bank terminate the Executive's employment with the Company and the Bank and this Agreement other than pursuant to Section 8, or (B) the Executive terminates his employment with the Company and the Bank and this Agreement for Good Reason pursuant to Section 9.

(b) Within 60 days following the Termination Date, the Bank shall pay to the Executive a single lump sum payment in an amount equal to three (3) times the sum of the Executive's annual Base Salary, at the greater of the Base Salary in effect on the Change of Control Date (as defined in subsection (h) below) or his Termination Date, and the Executive's Target Bonus, at the greater of his Target Bonus in effect on the Change in Control Date or Termination Date.

(c) Within 60 days following the Termination Date, the Bank shall pay to the Executive a single lump sum payment in an after-tax amount (determined using an assumed aggregate tax rate of 40%) equal to thirty-six (36) times the Bank's monthly COBRA charge in effect on the Termination Date for the type of Bank-provided group health plan coverage in effect for the Executive (e.g., family coverage) on the Termination Date less the active employee charge for such coverage in effect on the Termination Date.

(d) The Bank shall pay to the Executive any Prior Year Bonus in a lump sum on the date on which the Annual Bonus would have been paid to the Executive but for Executive's termination of employment; and

(e) The treatment of any outstanding Equity Plan awards shall be determined in accordance with the terms of the applicable Equity Plan and the applicable award agreements evidencing such awards.

(f) If payments to the Executive pursuant to this Agreement would result in total Parachute Payments (as defined in Section 7) to the Executive, whether or not made pursuant to this Agreement, with a value (as determined pursuant to Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and the guidance thereunder) equal to or greater than Executive's Parachute Payment Limit (as defined in Section 7), the provisions of Section 7 shall apply as if set out in this Section 6.

(g) For purposes of this Agreement, "Change in Control" means the first occurrence of any of the following events during the Term:

(i) the acquisition by any person (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 ("Act")), other than by, the Company, the Bank, any other subsidiary of the Company, and any employee benefit plan of the Company or the Bank or any other subsidiary of the Company, of fifty percent (50%) or more of the combined

voting power entitled to vote generally in the election of the directors of the Company's or the Bank's then outstanding voting securities;

(ii) the persons who were serving as the members of the Company Board or Bank Board immediately prior to the commencement of a proxy contest relating to the election of directors or a tender or exchange offer for voting securities of the Company or the Bank, as applicable ("Incumbent Directors"), shall cease to constitute at least a majority of such board (or the board of directors of any successor to the Company or the Bank, as applicable) at any time within one year of the election of directors as a result of such contest or the purchase or exchange of voting securities of the Company or the Bank, as applicable, pursuant to such offer, provided that any director elected or nominated for election to the Company Board or Bank Board, as applicable, by a majority of the Incumbent Directors then still in office and whose nomination or election was not made at the request or direction of the person(s) initiating such contest or making such offer shall be deemed to be an Incumbent Director for purposes of this subsection (ii); or

(iii) a sale, transfer, or other disposition of all or substantially all of the assets of the Company or the Bank which is consummated and immediately following which the persons who were the owners of the Company or the Bank, as applicable, immediately prior to such sale, transfer, or disposition, do not own, directly or indirectly and in substantially the same proportions as their ownership immediately prior to the sale, transfer, or disposition, more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of (i) the entity or entities to which such assets or ownership interest are sold or transferred or (ii) an entity that, directly or indirectly, owns more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the entities described in clause (i).

To the extent necessary to comply with Code Section 409A, a Change in Control will be deemed to have occurred only if the event also constitutes a change in the effective ownership or effective control of the Company or the Bank, as applicable, or a change in the ownership of a substantial portion of the assets of the Company or the Bank, as applicable, in each case within the meaning of Treasury Regulation section 1.409A-3(i)(5).

(h) For purposes of this Agreement, "Change of Control Date" means the date on which a Change of Control occurs.

7. **Provisions Relating to Parachute Payments.**

(a) If payments and benefits to or for the benefit of the Executive, whether pursuant to this Agreement or otherwise, would result in total Parachute Payments to the Executive with a value equal to or greater than one hundred percent (100%) of the Executive's Parachute Payment Limit, the amount payable to the Executive shall be reduced so that the value of all Parachute Payments to the Executive, whether or not made pursuant to this Agreement, is equal to the Parachute Payment Limit less One Dollar (\$1.00), accomplished by first reducing any amounts payable pursuant to Sections 5(b) and 6(b), as applicable, and then reducing other amounts of compensation to the extent necessary; provided that, no such reduction shall be taken if, after reduction for any applicable federal excise tax imposed on the Executive by Code Section 4999, as well as any federal, state and local income tax imposed on the Executive with respect to the total Parachute Payments, the total Parachute Payments accruing to the Executive would be more than

the amount of the total Parachute Payments after (a) taking the reduction described in the first clause of this sentence, and (b) further reducing such payments by any federal, state and local income taxes imposed on the Executive with respect to the total Parachute Payments. The Bank agrees to undertake such reasonable efforts as it may determine in its sole discretion to prevent any payment or benefit under this Agreement (or any portion thereof) from constituting an Excess Parachute Payment.

(b) The amount of Parachute Payments and the Parachute Payment Limit shall be determined as provided in this subsection (b). The Bank shall direct its independent auditor ("Auditor") or such other accounting or law firm experienced in such calculations and acceptable to the Executive to determine whether any Parachute Payments equal or exceed the Parachute Payment Limit and the amount of any adjustment required by subsection (a). The Bank shall promptly give the Executive notice of the Auditor's determination. All reasonable determinations made by the Auditor under this subsection (b) shall be binding on the Company and the Bank and the Executive and shall be made within thirty (30) days after the Termination Date.

(c) For purposes of this Section 7, the following terms have the following meanings:

(i) "Excess Parachute Payment" has the meaning given to such term in Code Section 280G(b)(1).

(ii) "Parachute Payment" has the meaning given to such term in Code Section 280G(b)(2).

(iii) "Parachute Payment Limit" means three (3) times the Executive's "base amount" as defined by Code Section 280G(b)(3).

8. Termination of Employment by the Company and the Bank for Cause, Death or Disability.

(a) The Company and the Bank may initiate the termination of the Executive's employment with the Company and the Bank and this Agreement for Cause at any time. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a notice of termination which shall include a copy of a resolution duly adopted by the affirmative vote of not less than a two-thirds (2/3) majority of all of the members of the Company Board and Bank Board at a meeting of each such board called and held for that purpose, finding that in the good faith opinion of such board, Executive was guilty of conduct justifying termination for Cause and specifying the particulars thereof in detail. Executive shall not have the right to receive compensation or other benefits for any period after termination for Cause except as provided in Section 4 of this Agreement.

(b) If the Executive dies before the termination of his employment with the Company and the Bank, his employment and this Agreement shall terminate automatically on the date of his death. In the case of a termination of the Executive's employment with the Company and the Bank on account of death, (i) the Executive shall remain entitled to life insurance benefits pursuant to the Bank's plans, programs, arrangements and practices in this regard, (ii) the Bank shall pay the Executive's beneficiary (as such beneficiary is specified under the Bank's 401(k) retirement plan) an amount equal to one (1) times the sum of the Executive's Base Salary and Target Bonus in effect

on the Termination Date in a lump sum within 60 days following the Termination Date, and (iii) the Executive shall not be entitled to severance benefits or payments pursuant to Sections 5 or 6.

(c) The Company and the Bank may initiate the termination of the Executive's employment with the Company and the Bank and this Agreement for Disability at any time. In the case of a termination of the Executive's employment with the Company and the Bank on account of Disability, (i) the Executive shall remain entitled to long-term disability benefits pursuant to the Bank's plans, programs, arrangements and practices in this regard (collectively, the "LTD Plan"), (ii) the Bank shall pay the Executive an amount equal to one (1) times the sum of the Executive's Base Salary and Target Bonus in effect on the Termination Date less the amount expected to be paid under the LTD Plan for the one (1) year period following the Termination Date, with such net amount paid as salary continuation in substantially equal installments over the twelve (12) month period following the Termination Date in accordance with the Bank's customary payroll practices regarding the payment of base salary to executives but no less frequently than monthly (i.e., as if the Executive were still employed and receiving Base Salary pursuant to Section 3(a) of this Agreement), except that the first payment shall be made within 60 days following the Termination Date and shall include all installments that would have been paid earlier had the installment stream commenced immediately following the Termination Date, and (iii) the Executive shall not be entitled to severance benefits or payments pursuant to Sections 5 or 6.

(d) For purposes of this Agreement, "Disability" will occur on the date on which the insurer or administrator of the Bank's program of long-term disability insurance determines that the Executive is eligible to commence benefits under such insurance.

9. Resignation by Executive for Good Reason. If an event of Good Reason occurs during the Term, the Executive may, at any time within the ninety (90) day period following the initial occurrence of such event, provide the Bank Board with a written notice of termination specifying the event of Good Reason and notifying the Company and the Bank of his intention to terminate his employment with the Company and the Bank upon the Company's and the Bank's failure to correct the event of Good Reason within thirty (30) days following receipt of the Executive's notice of termination. If the Company and the Bank fails to correct the event of Good Reason and provide the Executive with notice of such correction within such thirty (30) day period, the Executive's employment with the Company and the Bank and this Agreement shall terminate as of the end of such period and the Executive shall be entitled to benefits as provided in Section 4 and Section 5 or 6, as applicable.

10. Withholding and Taxes. The Company and the Bank may withhold from any payment made hereunder (i) any taxes that the Company or the Bank reasonably determines are required to be withheld under federal, state, or local tax laws or regulations, and (ii) any other amounts that the Company or the Bank is authorized to withhold. Except for employment taxes that are the obligation of the Company or the Bank, the Executive shall pay all federal, state, local, and other taxes (including, without limitation, interest, fines, and penalties) imposed on him under applicable law by virtue of or relating to the payments and/or benefits contemplated by this Agreement, subject to any reimbursement provisions of this Agreement.

11. Use and Disclosure of Confidential Information.

(a) The Executive acknowledges and agrees that (i) by virtue of his employment with the Company and the Bank, he will be given access to, and will help analyze, formulate or otherwise use, Confidential Information, (ii) the Company and the Bank have devoted (and will devote) substantial time, money, and effort to develop Confidential Information and maintain the proprietary and confidential nature thereof, and (iii) Confidential Information is proprietary and confidential and, if any Confidential Information were disclosed or became known by persons engaging in a business in any way competitive with the Company's Business, such disclosure would result in hardship, loss, irreparable injury, and damage to the Company or the Bank, the measurement of which would be difficult, if not impossible, to determine. Accordingly, the Executive agrees that (i) the preservation and protection of Confidential Information is an essential part of his duties of employment and that, as a result of his employment with the Company and the Bank, he has a duty of fidelity, loyalty, and trust to the Company and the Bank in safeguarding Confidential Information. The Executive further agrees that he will use his best efforts, exercise utmost diligence, and take all reasonable steps to protect and safeguard Confidential Information, whether such information derives from the Executive, other employees of the Company or the Bank, Customers, Prospective Customers, or vendors or suppliers of the Company or the Bank, and that he will not, directly or indirectly, use, disclose, distribute, or disseminate to any other person or entity or otherwise employ Confidential Information, either for his own benefit or for the benefit of another, except as required in the ordinary course of his employment by the Company and the Bank. The Executive shall follow all Company and Bank policies and procedures to protect all Confidential Information and shall take all reasonable precautions necessary under the circumstances to preserve and protect against the prohibited use or disclosure of any Confidential Information.

(b) For purposes of this Agreement, "Confidential Information" means the following:

- (i) materials, records, documents, data, statistics, studies, plans, writings, and information (whether in handwritten, printed, digital, or electronic form) relating to the Company's Business that are not generally known or available to the Company's business, trade, or industry or to individuals who work therein other than through a breach of this Agreement, or
- (ii) trade secrets of the Company or the Bank.

Confidential Information also includes, but is not limited to: (1) information about Company or Bank employees; (2) information about the Company's or the Bank's compensation policies, structure, and implementation; (3) hardware, software, and computer programs and technology used by the Company or the Bank; (4) Customer and Prospective Customer identities, lists, and databases, including private information related to customer history, loan activity, account balances, and financial information; (5) strategic, operating, and marketing plans; (6) lists and databases and other information related to the Company's or the Bank's vendors; (7) policies, procedures, practices, and plans related to pricing of products and services; and (8) information related to the Company's or the Bank's acquisition and divestiture strategy. Information or documents that are generally available or accessible to the public shall be deemed Confidential Information, if the information is retrieved, gathered, assembled, or maintained by the Company or the Bank in a manner not available to the public or for a purpose beneficial to the Company or the Bank.

(c) For purposes of this Agreement, "Company's Business" means, collectively, the products and services provided by the Company or the Bank or any other affiliate of the Company, including, but not limited to, lending activities (including individual loans consisting primarily of home equity lines of credit, residential real estate loans, and/or consumer loans, and commercial loans, including lines of credit, real estate loans, letters of credit, and lease financing) and depository activities (including noninterest-bearing demand, NOW, savings and money market, and time deposits), debit and ATM cards, merchant cash management, internet banking, treasury services, (including investment management, wholesale funding, interest rate risk, liquidity and leverage management and capital markets products) and other general banking services.

(d) For purposes of this Agreement, "Customer" means a person or entity who is a customer of the Company or the Bank at the time of the Executive's termination of employment or with whom the Executive had direct contact on behalf of the Company or the Bank at any time during the period of the Executive's employment with the Company and the Bank.

(e) For purposes of this Agreement, "Prospective Customer" means a person or entity who was the direct target of sales or marketing activity by the Executive or whom the Executive knew was a target of the Company's or the Bank's sales or marketing activities during the one year period preceding the termination of the Executive's employment with the Company and the Bank.

(f) The confidentiality obligations contained in this Agreement shall continue as long as Confidential Information remains confidential (except that the obligations shall continue, if Confidential Information loses its confidential nature through improper use or disclosure, including but not limited to any breach of this Agreement and such use or disclosure is known to the Executive) and shall survive the termination of this Agreement and/or termination of the Executive's employment with the Company and the Bank.

12. **Nondisparagement.** The Executive agrees not to make any oral or written statement or take any other action that disparages or criticizes the Company or the Bank or their management or practices, that damages the Company's or the Bank's good reputation, or that impairs the normal operations of the Company or the Bank. The Executive understands that this nondisparagement provision does not apply on occasions when the Executive is subpoenaed or ordered by a court or other governmental authority to testify or give evidence and must, of course, respond truthfully, to conduct otherwise protected by the Sarbanes-Oxley Act, or to conduct or testify in the context of enforcing the terms of this Agreement or other rights, powers, privileges, or claims not released by this Agreement. The Executive also understands that the foregoing nondisparagement provision does not apply on occasions when the Executive provides truthful information in good faith to any federal, state, or local governmental body, agency, or official investigating an alleged violation of any antidiscrimination or other employment-related law or otherwise gathering information or evidence pursuant to any official investigation, hearing, trial, or proceeding. Nothing in this nondisparagement provision is intended in any way to intimidate, coerce, deter, persuade, or compensate the Executive with respect to providing, withholding, or restricting any communication whatsoever to the extent prohibited under 18 U.S.C. §§ 201, 1503, or 1512 or under any similar or related provision of state or federal law. In addition, nothing in this provision is intended to require the Executive to provide notice to the Company or the Bank or their attorneys before reporting any possible violations of federal law or regulation to any governmental agency or entity ("Whistleblower Disclosures"), and the Executive is not required to notify the Company or the Bank or their attorneys that the Executive has made any such Whistleblower Disclosures. The Company and the Bank agree not to make any oral or written statement or take any other action

that disparages or criticizes the Executive or his good reputation both during the period of employment of the Executive with the Bank and the Company and at any time thereafter.

13. Ownership of Documents and Return of Materials At Termination of Employment.

(a) Any and all documents, records, and copies thereof, including but not limited to hard copies or copies stored digitally or electronically, pertaining to or including Confidential Information (collectively, "Company Documents") that are made or received by the Executive during his employment with the Company and the Bank shall be deemed to be property of the Company and the Bank. The Executive shall use Company Documents and information contained therein only in the course of his employment with the Company and the Bank and for no other purpose. The Executive shall not use or disclose any Company Documents to anyone except as authorized in the course of his employment and in furtherance of the Company's Business.

(b) Upon termination of employment, the Executive shall deliver to the Company and the Bank, as soon as practicably possible (with or without request) all Company Documents and all other Company and Bank property in the Executive's possession or under his custody or control.

14. Non-Solicitation of Customers and Employees. The Executive agrees that during the Term and for a period of twelve (12) months following the termination of the Executive's employment with the Company and the Bank, other than a termination of the Executive's employment with the Company and the Bank following a Change in Control, the Executive shall not, directly or indirectly, individually or jointly, (i) solicit in any manner, seek to obtain or service, or accept the business of any Customer or any product or service of the type offered by the Company or the Bank or competitive with the Company's Business, (ii) solicit in any manner, seek to obtain or service, or accept the business of any Prospective Customer for any product or service of the type offered by the Company or the Bank or otherwise competitive with the Company's Business, (iii) request or advise any Customer, Prospective Customer, or supplier of the Company or the Bank to terminate, reduce, limit, or change its business or relationship with the Company or the Bank, or (iv) induce, request, or attempt to influence any employee of the Company or the Bank to terminate his employment with the Company or the Bank.

15. Covenant Not to Compete. The Executive hereby understands and acknowledges that, by virtue of his position with the Company and the Bank, he has obtained advantageous familiarity and personal contacts with Customers and Prospective Customers, wherever located, and the business, operations, and affairs of the Company and the Bank. Accordingly, except as set forth in subparagraph (b) of this Section 15, during the term of this Agreement and for a period of twelve (12) months following the termination of his employment with the Company and the Bank ("Restriction Period") other than a termination of the Executive's employment with the Company and the Bank following a Change in Control or the involuntary termination of Executive's employment by the Bank or the Company, the Executive shall not, directly or indirectly, except as agreed to by duly adopted resolution of the Bank Board:

(a) as owner, officer, director, stockholder, investor, proprietor, organizer, employee, agent, representative, consultant, independent contractor, or otherwise, engage in the same trade or business as the Company's Business, in the same or similar capacity as the Executive worked for the Company and the Bank, or in such capacity as would cause the actual or threatened use of the Company's or the Bank's trade secrets and/or Confidential Information; provided, however, that

this subsection (a) shall not restrict the Executive from acquiring, as a passive investment, less than five percent (5%) of the outstanding securities of any class of an entity that are listed on a national securities exchange or actively traded in the over-the-counter market. The Executive acknowledges and agrees that, given the level of trust and responsibility given to him while in the Company's and the Bank's employ, and the level and depth of trade secrets and Confidential Information entrusted to him, any immediately subsequent employment with a competitor to the Company's Business would result in the inevitable use or disclosure of the Company's and the Bank's trade secrets and Confidential Information and, therefore, the duration of this year restriction is reasonable and necessary to protect against such inevitable disclosure; or

(b) offer to provide employment or work of any kind (whether such employment is with the Executive or any other business or enterprise), either on a full-time or part-time or consulting basis, to any person who then currently is an employee of the Company or the Bank.

The restrictions on the activities of the Executive contained in this Section 15 shall be limited to the following geographical areas: all counties in which Company or the Bank or any other affiliate of the Company maintains an office or branch or has filed an application for regulatory approval to establish an office or branch as of date of termination, except as agreed otherwise by the Bank Board.

16. Remedies. The Executive agrees that the Company and the Bank will suffer irreparable damage and injury and will not have an adequate remedy at law if the Executive breaches any provision of the restrictions contained in Sections 11, 12, 13, 14 and 15 (the "Restrictive Covenants"). Accordingly, if the Executive breaches or threatens or attempts to breach the Restrictive Covenants, in addition to all other available remedies, the Company and the Bank shall be entitled to seek injunctive relief, and no or minimal bond or other security shall be required in connection therewith. The Executive acknowledges and agrees that in the event of termination of this Agreement for any reason whatsoever, the Executive can obtain employment not competitive with the Company's Business (or, if competitive, outside of the geographic and customer-specific scope described herein) and that the issuance of an injunction to enforce the provisions of the Restrictive Covenants shall not prevent the Executive from earning a livelihood. The Restrictive Covenants are essential terms and conditions to the Company entering into this Agreement, and they shall be construed as independent of any other provision in this Agreement or of any other agreement between the Executive and the Company or the Bank. The existence of any claim or cause of action that the Executive has against the Company or the Bank, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company or the Bank of the Restrictive Covenants.

17. Reasonableness of Restrictions and Covenants. The Company, the Bank and the Executive acknowledge and agree that the restrictions and covenants contained in Sections 14 and 15 are reasonable in view of the nature of the Company's Business and the Executive's advantageous knowledge of and familiarity with the Company's Business, operations, affairs, and Customers.

18. Requirements for a Separation Agreement and Release. The Non-Change of Control Severance payments and benefits under Section 5 of this Agreement are conditioned upon Executive timely signing, returning, not revoking, and thereafter complying fully with a Separation Agreement and Release prepared by the Company or the Bank and containing a release of claims, covenant not to sue, non-disparagement clause, and other terms regularly included by the Company in severance agreements for executive-level employees (the "Separation Agreement and Release").

The Separation Agreement and Release will release rights and claims against the Company and the Bank that are in existence when Executive signs it, whether they are known or not known by Executive, other than those rights and claims that are not lawfully waivable. The Separation Agreement and Release will not release vested rights under the benefit plans sponsored by the Company or the Bank. It will be provided to Executive promptly following the Termination Date. The Separation Agreement and Release will specify the time period for Executive to review and consider it and the deadline for executing and returning it to the Company, as well as any applicable revocation period. If Executive does not sign and return the Separation Agreement and Release or, if applicable, timely revokes it, Executive shall be entitled only to the payments and benefits in Section 4(a) of this Agreement through his Termination Date, and the additional amounts set forth in Section 5 shall not be payable.

19. Cooperation. The parties agree that certain matters in which the Executive will be involved during the Term may necessitate the Executive's cooperation in the future. Accordingly, following the termination of the Executive's employment with the Company and the Bank for any reason, to the extent reasonably requested by the Company or the Bank and subject to the Executive's professional commitments, the Executive shall cooperate with the Company and the Bank in connection with matters arising out of the Executive's service to the Company and the Bank, such cooperation to include without limitation the providing of truthful testimony in any hearing or trial as requested by the Company or the Bank or any other affiliate of the Company; provided, however, that the Company and the Bank shall make reasonable efforts to minimize disruption of the Executive's other activities. The Bank shall reimburse the Executive for reasonable expenses incurred or compensation not received by the Executive due to such cooperation.

20. Publicity. During the Term, the Executive hereby consents to any and all reasonable and customary uses and displays, by the Company, the Bank and their agents, representatives and licensees, of the Executive's name, voice, likeness, image, appearance and biographical information in, on or in connection with any pictures, photographs, audio and video recordings, digital images, websites, television programs and advertising, other advertising and publicity, sales and marketing brochures, books, magazines, other publications, CDs, DVDs, tapes and all other printed and electronic forms and media throughout the world, at any time during the period of the Executive's employment with the Company and the Bank, for all legitimate commercial and business purposes of the Company and the Bank, without royalty, payment or other compensation to Executive.

21. Reimbursement of Certain Costs.

(a) If the Company or the Bank brings a cause of action to enforce the Restrictive Covenants or to recover damages caused by the Executive's breach of the Restrictive Covenants, the substantially prevailing party in such action shall be entitled to reasonable costs and expenses (including, without limitation, reasonable attorneys' fees, expert witness fees, and disbursements) in connection with such action.

(b) If a dispute arises regarding the Executive's rights hereunder, and the Executive obtains a final judgment in his favor from a court of competent jurisdiction with respect to such dispute, all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees, expert witness fees, and disbursements) incurred by the Executive in connection with such dispute or in otherwise pursuing a claim based on a breach of this Agreement, shall be paid by the Bank.

22. **No Reliance.** The Executive represents and acknowledges that in executing this Agreement, the Executive does not rely and has not relied upon any representation or statement by the Company or the Bank or their agents, other than statements contained in this Agreement.

23. **Effect of Banking Statutes and Regulations.** Notwithstanding anything herein contained to the contrary, any payments to the Executive by the Bank or Company whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and the regulations promulgated thereunder in 12 C.F.R. Part 359. In addition, the Executive agrees that this Agreement is subject to amendment at any time in order to comply with laws that are applicable to the Bank (including regulations and rules relating to any governmental program in which Company or the Bank may participate).

24. **Section 409A.** To the extent necessary to ensure compliance with Code Section 409A ("Section 409A"), the provisions of this Section 24 shall govern in all cases over any contrary or conflicting provision in this Agreement.

(a) It is intended that this Agreement comply with the requirements of Section 409A and all guidance issued thereunder by the U.S. Internal Revenue Service with respect to any nonqualified deferred compensation subject to Section 409A. This Agreement shall be interpreted and administered to maximize the exemptions from Section 409A and, to the extent this Agreement provides for deferred compensation subject to Section 409A, to comply with Section 409A and to avoid the imposition of tax, interest and/or penalties upon Executive under Section 409A. The Company and the Bank do not, however, assume any economic burdens associated with Section 409A. Although the Company and the Bank intend to administer this Agreement to prevent taxation under Section 409A, they do not represent or warrant that this Agreement complies with any provision of federal, state, local, or non-United States law. The Company, the Bank, other affiliates of the Bank, and their respective directors, officers, employees and advisers will not be liable to the Executive (or any other individual claiming a benefit through the Executive) for any tax, interest, or penalties the Executive may owe as a result of this Agreement. Neither the Company, the Bank nor any other affiliate of the Company has any obligation to indemnify or otherwise protect the Executive from any obligation to pay taxes under Section 409A.

(b) The right to a series of payments under this Agreement will be treated as a right to a series of separate payments. Each payment under this Agreement that is made within 2-½ months following the end of the year that contains the Termination Date is intended to be exempt from Section 409A as a short-term deferral within the meaning of the final regulations under Section 409A. Each payment under this Agreement that is made later than 2-½ months following the end of the year that contains the Termination Date is intended to be exempt from Section 409A under the two-times exception of Treasury Reg. § 1.409A-1(b)(9)(iii), up to the limitation on the availability of that exception specified in the regulation. Then, each payment that is made after the two-times exception ceases to be available shall be subject to delay, as necessary, as specified below.

(c) To the extent necessary to comply with Section 409A, in no event may the Executive, directly or indirectly, designate the taxable year of payment. In particular, to the extent necessary to comply with Section 409A, if any payment to the Executive under this Agreement is conditioned upon the Executive executing and not revoking a release of claims and if the designated payment period for such payment begins in one taxable year and ends in the next taxable year, the payment will be made in the later taxable year.

(d) To the extent necessary to comply with Section 409A, references in this Agreement to "termination of employment" or "terminates employment" (and similar references) shall have the same meaning as "separation from service" under Section 409A(a) (2)(A)(i) and any governing Internal Revenue Service guidance and Treasury regulations ("Separation from Service"), and no payment subject to Section 409A that is payable upon a termination of employment shall be paid unless and until (and not later than applicable in compliance with Section 409A) the Executive incurs a Separation from Service. In addition, if the Executive is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) at the time of the Executive's Separation from Service, any nonqualified deferred compensation subject to Section 409A that would otherwise have been payable on account of, and within the first six months following, the Executive's Separation from Service, and not by reason of another event under Section 409A(a)(2)(A), will become payable on the first business day after six months following the date of the Executive's Separation from Service or, if earlier, the date of the Executive's death.

(e) To the extent that any payment of or reimbursement by the Bank to the Executive of eligible expenses under this Agreement constitutes a "deferral of compensation" within the meaning of Section 409A (a "Reimbursement") (i) the Executive must request the Reimbursement (with substantiation of the expense incurred) no later than 90 days following the date on which the Executive incurs the corresponding eligible expense; (ii) subject to any shorter time period provided in any Bank expense reimbursement policy or specifically provided otherwise in this Agreement, the Bank shall make the Reimbursement to the Executive on or before the last day of the calendar year following the calendar year in which the Executive incurred the eligible expense; (iii) the Executive's right to Reimbursement shall not be subject to liquidation or exchange for another benefit; (iv) the amount eligible for Reimbursement in one calendar year shall not affect the amount eligible for Reimbursement in any other calendar year; and (v) except as specifically provided otherwise in this Agreement, the period during which the Executive may incur expenses that are eligible for Reimbursement is limited to five calendar years following the calendar year in which the Termination Date occurs.

25. Miscellaneous Provisions.

(a) **Further Assurances.** Each of the parties hereto shall do, execute, acknowledge, and deliver or cause to be done, executed, acknowledged, and delivered at any time and from time to time upon the request of any other party hereto, all such further acts, documents, and instruments as may be reasonably required to effect any of the transactions contemplated by this Agreement.

(b) **Binding Effect; Assignment.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither party hereto may assign this Agreement without the prior written consent of the other party. Notwithstanding the foregoing, (i) the Company or the Bank, as applicable, shall require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company or the Bank, as applicable, to expressly assume, in writing, all of the Company's or the Bank's, as applicable, obligations to the Executive hereunder and the Executive hereby consents to the assignment of the Restrictive Covenants under this Agreement to any successor or assign of the Company or the Bank, as applicable, and (ii) upon the Executive's death, this Agreement shall inure to the benefit of and be enforceable by the Executive's executors, administrators, representatives, heirs, distributees, devisees, and legatees and all amounts payable hereunder shall be paid to such persons or the estate of the Executive.

(c) **Waiver; Amendment.** No provision or obligation of this Agreement may be waived or discharged unless such waiver or discharge is agreed to in writing and signed by a duly authorized officer of the Company and the Bank and the Executive. The waiver by any party hereto of a breach of or noncompliance with any provision of this Agreement shall not operate or be construed as a continuing waiver or a waiver of any other or later breach or noncompliance. Except as expressly provided otherwise herein, this Agreement may be amended or supplemented only by a written agreement executed by a duly authorized officer of the Company, a duly authorized officer of the Bank and the Executive.

(d) **Headings.** The headings in this Agreement have been inserted solely for ease of reference and shall not be considered in the interpretation or enforcement of this Agreement.

(e) **Severability.** Should any provision of this Agreement be held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement. The parties further agree that any such court is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement or by making such other modifications as it deems warranted to carry out the intent and agreement of the parties as embodied herein to the maximum extent permitted by law. The parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement shall be construed as if such invalid, illegal, or unenforceable provisions had not been set forth herein.

(f) **Notice.** Any notice, request, instruction, or other document to be given hereunder to any party shall be in writing and delivered by hand, registered or certified United States mail, return receipt requested, or other form of receipted delivery, with all expenses of delivery prepaid, at the address specified for such party below (or such other address as specified by such party by like notice):

If to the Executive: At the address maintained in the personnel records of the Bank.

If to the Company: NorthEast Community Bancorp, Inc.
325 Hamilton Avenue, White Plains, NY, 10601
Attn: Corporate Secretary of the Board of Directors

If to the Bank: NorthEast Community Bank
325 Hamilton Avenue, White Plains, NY, 10601

(g) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

(h) **Governing Law; Arbitration.** This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of New York (without regard to its choice of law provisions). Except as set forth in Section 16 of this Agreement, any dispute or controversy arising under or in connection with this Agreement or the Executive's employment hereunder, shall be settled exclusively by arbitration, conducted before a single arbitrator in the location where the Company's principal business offices are located in accordance with the rule of the American Arbitration Association. The decision of the arbitrator will be final and binding upon the parties hereto. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The parties acknowledge and agree that in connection with any such arbitration and regardless of outcome, (a) each party shall pay all of its own costs and expenses, including, without limitation, its own legal fees and expenses, and (b) the arbitration costs shall be borne entirely by the Bank.

(i) **Entire Agreement.** This Agreement constitutes the entire and sole agreement between the Company and the Bank and the Executive with respect to the Executive's employment with the Company and the Bank or the termination thereof, and there are no other agreements or understandings either written or oral with respect thereto. The parties agree that any and all prior employment agreements between the parties have been terminated and are of no further force or effect.

(j) **Waiver of Jury Trial.** EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.

26. **Review and Consultation.** THE EXECUTIVE HEREBY ACKNOWLEDGES AND AGREES THAT HE (I) HAS READ THIS AGREEMENT IN ITS ENTIRETY PRIOR TO EXECUTING IT, (II) UNDERSTANDS THE PROVISIONS AND EFFECTS OF THIS AGREEMENT, (III) HAS CONSULTED WITH SUCH ADVISORS AS HE HAS DEEMED APPROPRIATE IN CONNECTION WITH HIS EXECUTION OF THIS AGREEMENT, AND (IV) HAS EXECUTED THIS AGREEMENT VOLUNTARILY. THE EXECUTIVE HEREBY UNDERSTANDS, ACKNOWLEDGES, AND AGREES THAT THIS AGREEMENT HAS BEEN PREPARED BY COUNSEL FOR THE COMPANY AND THE BANK AND THAT THE EXECUTIVE HAS NOT RECEIVED ANY ADVICE, COUNSEL, OR RECOMMENDATION WITH RESPECT TO THIS AGREEMENT FROM THE COMPANY OR THE BANK OR THEIR COUNSEL.

27. **Survival.** Upon any expiration or other termination of this Agreement: (i) each of Sections 3(h) (Indemnification), 11 - 17 (Restrictive Covenants), 19 (Cooperation), 23 (Required Provisions), 24 (Section 409A) and 26 (Review and Consultation) shall survive such expiration or other termination; and (ii) all of the other respective rights and obligations of the parties hereto shall survive such expiration or other termination to the extent necessary to carry out the intentions of the parties under this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the Company and the Bank has caused this Agreement to be executed by its duly authorized officer, and the Executive has signed this Agreement as of the date first written above.

NORTHEAST COMMUNITY BANK

By: /s/ Kenneth A. Martinek *Duly*
authorized officer of the Bank

NORTHEAST COMMUNITY BANCORP, INC.

By: /s/ Kenneth A. Martinek *Duly*
authorized officer of the Company

EXECUTIVE

By: /s/ Donald S. Hom
Donald S. Hom
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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth A. Martinek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NorthEast Community Bancorp, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 registrant 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 registrant, 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 controls 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 10, 2023

/s/ Kenneth A. Martinek
Kenneth A. Martinek
Chairman and Chief Executive Officer
(Principal executive officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald S. Hom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NorthEast Community Bancorp, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 registrant 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 registrant, 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 controls 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 10, 2023

/s/ Donald S. Hom
Donald S. Hom
Executive Vice President and Chief Financial Officer
(Principal financial and chief accounting officer)

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

In connection with the Quarterly Report of NorthEast Community Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as added by § 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 results of operations of the Company as of and for the period covered by the Report.

/s/ Kenneth A. Martinek
Kenneth A. Martinek
Chairman and Chief Executive Officer

/s/ Donald S. Hom
Donald S. Hom
Executive Vice President and
Chief Financial Officer

Date: August 10, 2023
