

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

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: 001-38224

**PDL Community Bancorp**

(Exact Name of Registrant as Specified in its Charter)

**Federal**  
(State or other jurisdiction of  
incorporation or organization)  
2244 Westchester Avenue  
Bronx, NY  
(Address of principal executive offices)

82-2857928  
(I.R.S. Employer  
Identification No.)

10462  
(Zip Code)

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

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

As of November 7, 2019, the registrant had 17,576,703 shares of common stock, \$0.01 par value per share, outstanding.

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## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements.

## PDL Community Bancorp and Subsidiaries

**Consolidated Statements of Financial Condition (Unaudited)**  
**September 30, 2019 and December 31, 2018**  
(Dollars in thousands, except share data)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and due from banks (Note 2):		
Cash	\$ 6,425	\$ 45,225
Interest-bearing deposits in banks	40,965	24,553
Total cash and cash equivalents	47,390	69,778
Available-for-sale securities, at fair value (Note 3)	51,966	27,144
Loans receivable, net (Note 4)	948,548	918,509
Accrued interest receivable	3,893	3,795
Premises and equipment, net (Note 5)	32,805	31,135
Federal Home Loan Bank of New York stock (FHLBNY), at cost	8,659	2,915
Deferred tax assets (Note 8)	3,925	3,811
Other assets	2,802	2,814
<b>Total assets</b>	<b>\$ 1,099,988</b>	<b>\$ 1,059,901</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits (Note 6)	\$ 757,845	\$ 809,758
Accrued interest payable	81	63
Advance payments by borrowers for taxes and insurance	7,780	6,037
Advances from the Federal Home Loan Bank of New York and others (Note 7)	169,404	69,404
Other liabilities	4,324	5,467
<b>Total liabilities</b>	<b>939,434</b>	<b>890,729</b>
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value; 50,000,000 shares authorized; 18,463,028 shares issued and 17,576,703 shares outstanding as of September 30, 2019 and 18,463,028 shares issued and outstanding as of December 31, 2018	185	185
Treasury stock, at cost; 886,325 shares as of September 30, 2019 and no shares as of December 31, 2018 (Note 9)	(12,663)	—
Additional paid-in-capital	85,749	84,581
Retained earnings	101,140	98,813
Accumulated other comprehensive loss (Note 14)	(7,947)	(8,135)
Unearned compensation - ESOP; 591,062 shares as of September 30, 2019 and 627,251 shares as of December 31, 2018 (Note 9)	(5,910)	(6,272)
<b>Total stockholders' equity</b>	<b>160,554</b>	<b>169,172</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,099,988</b>	<b>\$ 1,059,901</b>

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

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Income (Unaudited)  
 Three and Nine Months Ended September 30, 2019 and 2018  
 (Dollars in thousands, except share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest and dividend income:				
Interest on loans receivable	\$ 12,663	\$ 11,483	\$ 36,818	\$ 32,922
Interest on deposits due from banks	117	141	498	510
Interest and dividend on available-for-sale securities and FHLB NY stock	173	113	433	399
<b>Total interest and dividend income</b>	<u>12,953</u>	<u>11,737</u>	<u>37,749</u>	<u>33,831</u>
Interest expense:				
Interest on certificates of deposit	1,896	1,942	5,756	5,539
Interest on other deposits	759	272	2,211	655
Interest on borrowings	533	276	1,211	578
<b>Total interest expense</b>	<u>3,188</u>	<u>2,490</u>	<u>9,178</u>	<u>6,772</u>
<b>Net interest income</b>	<u>9,765</u>	<u>9,247</u>	<u>28,571</u>	<u>27,059</u>
Provision for loan losses (Note 4)	14	602	163	1,034
<b>Net interest income after provision for loan losses</b>	<u>9,751</u>	<u>8,645</u>	<u>28,408</u>	<u>26,025</u>
Noninterest income:				
Service charges and fees	247	191	705	627
Brokerage commissions	36	286	169	424
Late and prepayment charges	150	65	551	327
Other	146	172	593	744
<b>Total noninterest income</b>	<u>579</u>	<u>714</u>	<u>2,018</u>	<u>2,122</u>
Noninterest expense:				
Compensation and benefits	4,667	4,547	14,157	13,466
Occupancy and equipment	1,943	1,585	5,586	4,794
Data processing expenses	398	342	1,182	1,050
Direct loan expenses	183	265	521	572
Insurance and surety bond premiums	146	87	312	275
Office supplies, telephone and postage	281	308	869	960
Professional fees	956	978	2,199	2,130
Marketing and promotional expenses	46	40	119	147
Directors fees	69	69	225	207
Regulatory dues	70	63	173	177
Other operating expenses	575	485	1,789	1,705
<b>Total noninterest expense</b>	<u>9,334</u>	<u>8,769</u>	<u>27,132</u>	<u>25,483</u>
<b>Income before income taxes</b>	<u>996</u>	<u>590</u>	<u>3,294</u>	<u>2,664</u>
Provision for income taxes (Note 8)	287	188	967	623
<b>Net income</b>	<u>\$ 709</u>	<u>\$ 402</u>	<u>\$ 2,327</u>	<u>\$ 2,041</u>
Earnings per share for the period (Note 10)				
Basic	\$ 0.04	\$ 0.02	\$ 0.13	\$ 0.11
Diluted	\$ 0.04	\$ 0.02	\$ 0.13	\$ 0.11

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

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Unaudited)  
 Three and Nine Months Ended September 30, 2019 and 2018  
 (Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 709	\$ 402	\$ 2,327	\$ 2,041
Net change in unrealized gains (losses) on available-for-sale securities :				
Unrealized gains (losses)	24	(5)	354	(179)
Income tax effect	(5)	1	(75)	(8)
Unrealized gains (losses) on securities, net of tax	19	(4)	279	(187)
Pension benefit liability adjustment:				
Net (loss)	(32)	(31)	(115)	(96)
Income tax effect	7	11	24	33
Pension liability adjustment, net of tax	(25)	(20)	(91)	(63)
Total other comprehensive income (loss), net of tax	(6)	(24)	188	(250)
<b>Total comprehensive income</b>	<b>\$ 703</b>	<b>\$ 378</b>	<b>\$ 2,515</b>	<b>\$ 1,791</b>

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

PDL Community Bancorp and Subsidiaries

Consolidated Statements of Stockholders' Equity (Unaudited)  
 Nine Months Ended September 30, 2019 and 2018

(Dollars in thousands, except share data)

	Common Stock		Treasury Stock, At Cost	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unallocated Common Stock of ESOP	Total
	Shares	Amount						
<b>Balance, December 31, 2017</b>	18,463,028	\$ 185	\$ —	\$ 84,351	\$ 94,855	\$ (7,851)	\$ (6,755)	\$ 164,785
Net income	—	—	—	—	2,041	—	—	2,041
Other comprehensive loss, net of tax	—	—	—	—	—	(250)	—	(250)
ESOP shares committed to be released (36,189 shares)	—	—	—	206	—	—	362	568
<b>Balance, September 30, 2018</b>	<u>18,463,028</u>	<u>\$ 185</u>	<u>\$ —</u>	<u>\$ 84,557</u>	<u>\$ 96,896</u>	<u>\$ (8,101)</u>	<u>\$ (6,393)</u>	<u>\$ 167,144</u>
<b>Balance, December 31, 2018</b>	18,463,028	\$ 185	\$ —	\$ 84,581	\$ 98,813	\$ (8,135)	\$ (6,272)	\$ 169,172
Net income	—	—	—	—	2,327	—	—	2,327
Other comprehensive income, net of tax	—	—	—	—	—	188	—	188
Treasury stock	(886,325)	—	(12,663)	—	—	—	—	(12,663)
ESOP shares committed to be released (36,189 shares)	—	—	—	168	—	—	362	530
Restricted stock awards	—	—	—	923	—	—	—	923
Stock options	—	—	—	77	—	—	—	77
<b>Balance, September 30, 2019</b>	<u>17,576,703</u>	<u>\$ 185</u>	<u>\$ (12,663)</u>	<u>\$ 85,749</u>	<u>\$ 101,140</u>	<u>\$ (7,947)</u>	<u>\$ (5,910)</u>	<u>\$ 160,554</u>

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

**PDL Community Bancorp and Subsidiaries**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**Nine Months Ended September 30, 2019 and 2018**  
(Dollars in thousands)

	Nine Months Ended September 30,	
	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 2,327	\$ 2,041
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums on securities, net	42	8
Loss on sale of loans, net	114	54
Gain on sale of available-for-sale securities	—	(12)
Provision for loan losses	163	1,034
Depreciation and amortization	1,626	1,307
Deferred income taxes	(166)	(184)
ESOP compensation	574	614
Share-based compensation expense	999	—
Changes in assets and liabilities:		
Increase in accrued interest receivable	(98)	(274)
Decrease (increase) in other assets	12	(353)
Increase in accrued interest payable	18	33
Increase in advance payments by borrowers	1,743	2,194
(Decrease) increase in other liabilities	(1,301)	279
<b>Net cash provided by operating activities</b>	<b>6,053</b>	<b>6,741</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from redemption of FHLB NY Stock	6,795	—
Purchases of FHLB NY Stock	(12,539)	(1,106)
Purchases of available-for-sale securities	(30,000)	—
Proceeds from sale of available-for-sale securities	—	3,760
Proceeds from maturities, calls and principal repayments on available-for-sale securities	5,491	785
Proceeds from sales of loans	3,660	4,761
Net increase in loans	(33,976)	(101,030)
Purchases of premises and equipment	(3,296)	(3,428)
<b>Net cash used in investing activities</b>	<b>(63,865)</b>	<b>(96,258)</b>
<b>Cash Flows From Financing Activities:</b>		
Net (decrease) increase in deposits	(51,913)	50,807
Repurchase of treasury stock	(12,663)	—
Proceeds from advances from FHLB NY	517,398	158,398
Repayments of advances from FHLB NY	(417,398)	(157,023)
<b>Net cash provided by financing activities</b>	<b>35,424</b>	<b>52,182</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(22,388)</b>	<b>(37,335)</b>
<b>Cash and Cash Equivalents:</b>		
Beginning	69,778	59,724
Ending	<u>\$ 47,390</u>	<u>\$ 22,389</u>
<b>Supplemental Disclosures:</b>		
Cash paid during the period:		
Interest	<u>\$ 9,160</u>	<u>\$ 6,737</u>
Income taxes	<u>\$ 888</u>	<u>\$ 516</u>

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

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

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

Basis of Presentation and Consolidation:

The unaudited interim Consolidated Financial Statements of PDL Community Bancorp (the “Company”) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by the U.S. generally accepted accounting principles (“GAAP”). In the opinion of management, all adjustments and disclosures considered necessary for the fair presentation of the accompanying Consolidated Financial Statements have been included. Interim results are not necessarily reflective of the results for the entire year. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2018 included in the Company’s annual report on Form 10-K.

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

Nature of Operations:

The Bank is a federally chartered stock savings association headquartered in the Bronx, New York. It was originally chartered in 1960 as a federally chartered mutual savings and loan association under the name Ponce De Leon Federal Savings and Loan Association. In 1985, the Bank changed its name to “Ponce De Leon Federal Savings Bank.” In 1997, the Bank changed its name again to “Ponce De Leon Federal Bank.” Upon the completion of its reorganization into a mutual holding company structure, the assets and liabilities of Ponce De Leon Federal Bank were transferred to and assumed by the Bank, a wholly-owned subsidiary of PDL Community Bancorp. The Bank is subjected to comprehensive regulation and examination by the Office of Comptroller of the Currency (the “OCC”).

The Bank’s business is conducted through the administrative office and 13 branch banking offices. The banking offices are located in the Bronx (4 branches), Manhattan (2 branches), Queens (3 branches) and Brooklyn (3 branches), New York and Union City (1 branch), New Jersey. The primary market area currently consists of the New York City metropolitan area.

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



**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Summary of Significant Accounting Policies:

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

Interim Financial Statements: The interim consolidated financial statements at September 30, 2019, and for the three and nine months ended September 30, 2019 and 2018 are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2019, are not necessarily indicative of the results to be achieved for the remainder of the year ending December 31, 2019, or any other period.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within New York City. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local market conditions. Note 3 addresses the types of securities that the Bank invests in. Notes 4 and 11 discuss the types of lending that the Bank engages in, and other concentrations.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and amounts due from banks (including items in process of clearing). For purposes of reporting cash flows, the Bank considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash flows from loans originated by the Bank, interest-bearing deposits in financial institutions, and deposits are reported net.

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the consolidated statement of income and (2) OTTI related to other factors, which is recognized in other comprehensive income.

The credit loss is defined as the difference between the discounted present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The sale of a held-to-maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

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

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

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

A loan is moved to nonaccrual status in accordance with the Bank's policy typically after 90 days of non-payment. The accrual of interest on mortgage and commercial loans is generally discontinued at the time the loan becomes 90 days past due unless the loan is well-secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off if collection of principal or interest is considered doubtful. All nonaccrual loans are considered impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash basis or recorded against principal balances, until qualifying for return to accrual. Cash basis interest recognition is only applied on nonaccrual loans with a sufficient collateral margin to ensure no doubt with respect to the collectability of principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and remain current for a period of time (typically six months) and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans are measured for impairment using the fair value of the collateral, present value of cash flows, or the observable market price of the note. Impairment measurement for all collateral dependent loans, excluding accruing troubled debt restructurings, is based on the fair value of collateral, less costs to sell, if necessary. A loan is considered collateral dependent if repayment of the loan is expected to be provided solely by the sale or the operation of the underlying collateral.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

When a loan is modified to a troubled debt restructuring, management evaluates the loan for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs, if repayment under the modified terms becomes doubtful.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced over a rolling 12 quarter average period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

When establishing the allowance for loan losses, management categorizes loans into risk categories reflecting individual borrower earnings, liquidity, leverage and cash flow, as well as the nature of underlying collateral. These risk categories and relevant risk characteristics are as follows:

Residential and Multifamily Mortgage Loans: Residential and multifamily mortgage loans are secured by first mortgages. These loans are typically underwritten with loan-to-value ratios ranging from 65% to 90%. The primary risks involved in residential mortgages are the borrower's loss of employment, or other significant event, that negatively impacts the source of repayment. Additionally, a serious decline in home values could jeopardize repayment in the event that the underlying collateral needs to be liquidated to pay-off the loan.

Nonresidential Mortgage Loans: Nonresidential mortgage loans are primarily secured by commercial buildings, office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties, including hotels, restaurants and nursing homes. These loans are typically underwritten at no more than 75% loan-to-value ratio. Although terms vary, commercial real estate loans generally have amortization periods of 15 to 30 years, as well as balloon payments of 10 to 15 years, and terms which provide that the interest rate is adjusted on a 5 year schedule.

Construction and Land Loans: Construction real estate loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that government approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms of six months to two years during the construction period with fixed rates or interest rates based on a designated index.

Business Loans: Business loans are loans for commercial, corporate and business purposes, including issuing letters of credit. These loans are secured by business assets or may be unsecured and repayment is directly dependent on the successful operation of the borrower's business and the borrower's ability to convert the assets to operating revenue. They possess greater risk than most other types of loans because the repayment capacity of the borrower may become inadequate. Business loans generally have terms of five to seven years or less and interest rates that float in accordance with a designated published index. Substantially, all such loans are backed by the personal guarantees of the owners of the business.

Consumer Loans: Consumer loans generally have higher interest rates than mortgage loans. The risk involved in consumer loans is the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include passbook loans and other secured and unsecured loans that have been made for a variety of consumer purposes.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Loans Held for Sale: Loan sales occur from time to time as part of strategic business or regulatory compliance initiatives. Loans held for sale, including deferred fees and costs, are reported at the lower of cost or fair value as determined by expected bid prices from potential investors. Loans are sold without recourse and servicing released. When a loan is transferred from portfolio to held-for-sale and the fair value is less than cost, a charge-off is recorded against the allowance for loan losses. Subsequent declines in fair value, if any, are charged against earnings.

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

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation.

Depreciation is computed and charged to operations using the straight-line method over the estimated useful lives of the respective assets as follows:

	<u>Years</u>
Buildings	39
Building improvements	15 - 39
Furniture, fixtures, and equipment	3 - 10

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

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

Other Real Estate Owned: Other Real Estate Owned ("OREO") represents properties acquired through, or in lieu of, loan foreclosure or other proceedings. OREO is initially recorded at fair value, less estimated disposal costs, at the date of foreclosure, which establishes a new cost basis. After foreclosure, the properties are held for sale and are carried at the lower of cost or fair value, less estimated costs of disposal. Any write-down to fair value, at the time of transfer to OREO, is charged to the allowance for loan losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by current fair values and charges against earnings are recorded as necessary to reduce the carrying amount to fair value, less estimated costs to dispose. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the OREO, while costs relating to holding the property are expensed. Gains or losses are included in operations upon disposal.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

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

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

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

Related Party Transactions: Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risk of collectability, nor favored treatment or terms, nor present other unfavorable features. Note 15 contains details regarding related party transactions.

Employee Benefit Plans: The Company maintains Ponce Bank's 401(k) Plan, the noncontributory defined benefit pension plan, as well as the Supplemental Executive Retirement Plan (the "SERP"). The noncontributory defined benefit pension plan was effectively frozen on May 31, 2007. The funding policy is to contribute annually the amounts sufficient to meet the minimum funding standards established by the Employee Retirement Income Security Act ("ERISA") and such additional amounts as determined by management based on actuary recommendations. The Company is in the process of terminating the noncontributory defined benefit pension plan.

Employee Stock Ownership Plan: Compensation expense is recorded as shares are committed to be released with a corresponding credit to unearned employee stock ownership plan ("ESOP") equity account at the average fair value of the shares during the period and the shares become outstanding for earnings per share computations. Compensation expense is recognized ratably over the service period based upon management's estimate of the number of shares expected to be allocated by the ESOP. The difference between the average fair value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in-capital. Unallocated common shares held by the Company's ESOP are shown as a reduction in stockholders' equity and are excluded from weighted-average common shares outstanding for both basic and diluted earnings per share calculations until they are committed to be released.

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

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

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

**Comprehensive Income:** Comprehensive income consists of net income and other comprehensive income, which are both recognized as separate components of equity. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrecognized gains and losses on actuarial loss and prior service cost of the defined benefit pension plan.

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

**Fair Value of Financial Instruments:** Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

**Segment Reporting:** Although management monitors the revenue streams of the various products and services, the identifiable segments and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregate in one reportable operating segment.

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

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

**Treasury Stock:** Shares repurchased under the Company's share repurchase programs were purchased in open-market transactions and are held as treasury stock. All treasury stock is held at cost.

**Reclassification of Prior Year Presentation:** Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations and did not affect previously reported amounts in the Consolidated Statements of Income. No adjustment has been made to the Consolidated Statements of Income for the three and nine months ended September 30, 2018.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Recent Accounting Pronouncements:

As an emerging growth company (“EGC”) as defined in Rule 12b-2 of the Exchange Act, the Company has elected to use the extended transition period to delay the adoption of new or reissued accounting pronouncements applicable to public business entities until such pronouncements are made applicable to nonpublic business entities. As of September 30, 2019, there is no significant difference in the comparability of the consolidated financial statements as a result of this extended transition period.

Accounting Pronouncements Adopted in 2018:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers (Topic 606)*,” that amended guidance on revenue recognition from contracts with customers. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most contract revenue recognition guidance, including industry-specific guidance. The core principle of the amended guidance reportedly is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it adopted the amendments in this update for the annual reporting period beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Bank’s primary source of revenue is interest income on financial assets and income from mortgage banking activities, which are explicitly excluded from the scope of the new guidance. As a result, the adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “*Compensation - Stock Compensation (Topic 718)*.” The reported objective of this ASU is to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the update, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period.

An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current accounting) or account for forfeitures when they occur. Within the statement of cash flows, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it adopted the amendments in this update for the annual period beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this update did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “*Compensation – Stock Compensation (Topic 718), Scope of Modification Accounting*,” which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of the standard did not have a material impact on the Company’s consolidated statements of financial condition and results of operations.

In February 2018, the FASB issued ASU 2018-02, “*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.” This amendment allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This amendment is effective for years beginning after December 15, 2018 and interim periods within those fiscal years. The Company elected to early adopt this standard as of December 31, 2018 and reclassified \$1,281 from accumulated other comprehensive income to retained earnings.

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Accounting Pronouncements Not Yet Adopted:

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities.*” The update requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It addresses the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendment eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Financial assets and financial liabilities are to be presented separately by measurement category and form of financial asset and the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated with the entity’s other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842).*” This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. To date, the Company has identified its leased office spaces as within the scope of the guidance. The Company currently leases seven leased branches and the new guidance will result in the establishment of a right to use asset and corresponding lease obligations. The Company continues to evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope and subsequent related accounting standard updates. The Company has established a project committee and has initiated training on ASU 2016-02. The Company has performed preliminary computations of its right to use asset and corresponding lease obligations for the operating leases of our seven branches and will be presented to management for review.

In October 2019, the FASB voted to defer implementation of the standard for smaller reporting companies, such as the Company, to fiscal years beginning after December 15, 2020.

In June 2016, the FASB issued ASU 2016-13, “*Measurement of Credit Losses on Financial Instruments.*” This ASU reportedly significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard is to replace today’s “incurred loss” approach with an “expected loss” model. The new model, referred to as the current expected credit loss (“CECL”) model, is to apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also reportedly simplifies the accounting model for purchased credit-impaired debt, securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities have to apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach).



**PDL Community Bancorp and Subsidiaries**  
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**(Dollars in thousands, unless otherwise stated)**

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

Although early adoption is permitted, the Company does not expect to elect that option. The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. As a result of the required change in approach toward determining estimated credit losses from the current “incurred loss” model to one based on estimated cash flows over a loan’s contractual life, adjusted for prepayments (a “life of loan” model), the Company expects that the new guidance will result in an increase in the allowance for loan losses, particularly for longer duration loan portfolios. The Company also expects that the new guidance may result in an allowance for available-for-sale debt securities. The Company has selected the CECL model and has begun running scenarios. In both cases, the extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time.

In October 2019, the FASB voted to defer implementation of the standard for smaller reporting companies, such as the Company, to fiscal years beginning after December 15, 2022.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.*” This ASU reportedly is intended to reduce diversity in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. A retrospective transition method should be applied to each period presented, unless it is impracticable to apply the amendments retrospectively for some of the issues, then the amendments for those issues would be applied prospectively as of the earliest date practicable. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows (Topic 230) - Restricted Cash.*” The ASU amended the current standard to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company has not adopted this update and does not expect this update will have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 “*Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.*” The ASU requires that an employer report the service cost component with other compensation cost arising from services rendered by the pertinent employees during the period. The amendment also requires the components of net benefit cost to be presented separately in the income statement from the service cost component and not within income from operations. ASU 2017-07 is effective for interim and annual reporting for public business entities beginning after December 15, 2017. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08 “*Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.*” The ASU requires premiums on callable debt securities to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018 for public business entities. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. ASU 2017-08 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or disclosures.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

In August 2018, the FASB issued ASU 2018-13, “*Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.*” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, “*Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.*” The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including, but not limited to the removal of the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. The update also added and clarified certain disclosure requirements. The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities. As the Company is taking advantage of the extended transition period for complying with new or revised accounting standards assuming it remains an EGC, it will adopt the amendments in this update for fiscal years ending after December 15, 2021. The adoption of this standard is not expected to have a material impact on the Company’s consolidated statements of financial condition and results of operation.

In April 2019, the FASB issued ASU 2019-04, “*Codification Improvements to (Topic 326, Financial Instruments–Credit Losses), (Topic 815, Derivatives and Hedging) and (Topic 825, Financial Instruments).*” The amendments in ASU 2019-04 make clarifications and minor improvements related to the following recently issued accounting standards: ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The adoption of this standard is not expected to have a material impact on the Company’s consolidated statements of financial condition and results of operation.

In May 2019, the FASB issued ASU 2019-05, “*Financial Instruments – Credit Losses. Targeted Transition Relief*” ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20 if the instruments are eligible for fair value option under ASC 825-10. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis. The amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. The adoption of this standard is not expected to have a material impact on the Company’s consolidated statements of financial condition and results of operation.

**Note 2. Restrictions on Cash and Due From Banks**

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The Bank had \$5,590 and \$44,717 in cash to cover its minimum reserve requirement of \$4,866 and \$4,375 at September 30, 2019, and December 31, 2018, respectively.

**Note 3. Available-for-Sale Securities**

The amortized cost and fair value of available-for-sale securities at September 30, 2019 and December 31, 2018 are summarized as follows:

	September 30, 2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and Federal Agencies	\$ 20,927	\$ —	\$ (75)	\$ 20,852
U.S. Treasury	29,960	—	(4)	29,956
Mortgage-Backed Securities:				
FNMA Certificates	567	—	(4)	563
GNMA Certificates	583	12	—	595
	<u>\$ 52,037</u>	<u>\$ 12</u>	<u>\$ (83)</u>	<u>\$ 51,966</u>

**PDL Community Bancorp and Subsidiaries**  
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(Dollars in thousands, unless otherwise stated)  
**Note 3. Available-for-Sale Securities (Continued)**

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agencies	\$ 20,924	\$ —	\$ (409)	\$ 20,515
U.S. Treasury	4,997	—	(2)	4,995
Mortgage-Backed Securities:				
FNMA Certificates	778	—	(19)	759
GNMA Certificates	870	5	—	875
	<u>\$ 27,569</u>	<u>\$ 5</u>	<u>\$ (430)</u>	<u>\$ 27,144</u>

There were no securities classified as held-to-maturity as of September 30, 2019 and December 31, 2018. There were no securities sold for the three and nine months ended September 30, 2019. There were \$3,748 securities sold in the three and nine months ended September 30, 2018. The Company purchased \$30,000 of U.S. Treasury securities during the three months ended September 30, 2019.

The following tables present the Company's securities gross unrealized losses and fair values, aggregated by the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2019 and at December 31, 2018:

	September 30, 2019					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and Federal Agencies	\$ —	\$ —	\$ 20,852	\$ (75)	\$ 20,852	\$ (75)
U.S. Treasury	29,956	(4)	—	—	29,956	(4)
Mortgage-Backed						
FNMA Certificates	—	—	563	(4)	563	(4)
	<u>\$ 29,956</u>	<u>\$ (4)</u>	<u>\$ 21,415</u>	<u>\$ (79)</u>	<u>\$ 51,371</u>	<u>\$ (83)</u>

	December 31, 2018					
	Securities With Gross Unrealized Losses					
	Less Than 12 Months		12 Months or More		Total	Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and Federal Agencies	\$ —	\$ —	\$ 20,515	\$ (409)	\$ 20,515	\$ (409)
U.S. Treasury	4,995	(2)	—	—	4,995	(2)
Mortgage-Backed						
FNMA Certificates	—	—	759	(19)	759	(19)
	<u>\$ 4,995</u>	<u>\$ (2)</u>	<u>\$ 21,274</u>	<u>\$ (428)</u>	<u>\$ 26,269</u>	<u>\$ (430)</u>

The Company's investment portfolio had 12 available-for-sale securities at September 30, 2019 and December 31, 2018. At September 30, 2019 and December 31, 2018, the Company had 11 securities, with gross unrealized loss positions. Management reviewed the financial condition of the entities underlying the securities at both September 30, 2019 and December 31, 2018 and determined that they are not other than temporarily impaired because the unrealized losses in those securities relate to market interest rate changes. The Company has the ability to hold them and does not have the intent to sell these securities, and it is not more likely than not that the Company will be required to sell these securities, before recovery of the cost basis. In addition, management also considers the issuers of the securities to be financially sound and believes the Company will receive all contractual principal and interest related to these investments.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 3. Available-for-Sale Securities (Continued)**

The following is a summary of maturities of securities at September 30, 2019 and December 31, 2018. Amounts are shown by contractual maturity. Because borrowers for mortgage-backed securities have the right to prepay obligations with or without prepayment penalties, at any time, these securities are included as a total within the table.

	<b>September 30, 2019</b>	
	<b>Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>U.S. Government and Federal Agency Securities:</b>		
Amounts maturing:		
Three months or less	\$ 34,515	\$ 34,505
After three months through one year	12,875	12,819
After one year through five years	3,497	3,484
	<u>50,887</u>	<u>50,808</u>
<b>Mortgage-Backed Securities</b>	<u>1,150</u>	<u>1,158</u>
<b>Total</b>	<u>\$ 52,037</u>	<u>\$ 51,966</u>

	<b>December 31, 2018</b>	
	<b>Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>U.S. Government and Federal Agency Securities:</b>		
Amounts maturing:		
Three months or less	\$ 4,997	\$ 4,995
After three months through one year	4,554	4,497
After one year through five years	16,370	16,018
	<u>25,921</u>	<u>25,510</u>
<b>Mortgage-Backed Securities</b>	<u>1,648</u>	<u>1,634</u>
<b>Total</b>	<u>\$ 27,569</u>	<u>\$ 27,144</u>

There were no securities pledged at September 30, 2019 and December 31, 2018.

**Note 4. Loans Receivable and Allowance for Loan Losses**

Loans at September 30, 2019 and December 31, 2018 are summarized as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>Mortgage loans:</b>		
1-4 Family residential		
Investor-Owned	\$ 309,065	\$ 303,197
Owner-Occupied	90,843	92,788
Multifamily residential	244,644	232,509
Nonresidential properties	195,952	196,917
Construction and land	106,124	87,572
<b>Nonmortgage loans:</b>		
Business loans	11,040	15,710
Consumer loans	1,252	1,068
	<u>958,920</u>	<u>929,761</u>
Net deferred loan origination costs	1,788	1,407
Allowance for loan losses	<u>(12,160)</u>	<u>(12,659)</u>
<b>Loans receivable, net</b>	<u>\$ 948,548</u>	<u>\$ 918,509</u>

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

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

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

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

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

Below are the definitions of the internally assigned risk ratings:

- **Strong Pass** – Loans to a new or existing borrower collateralized at least 90 percent by an unimpaired deposit account at the Company.
- **Good Pass** – Loans to a new or existing borrower in a well-established enterprise in excellent financial condition with strong liquidity and a history of consistently high level of earnings, cash flow and debt service capacity.
- **Satisfactory Pass** – Loans to a new or existing borrower of average strength with acceptable financial condition, satisfactory record of earnings and sufficient historical and projected cash flow to service the debt.
- **Performance Pass** – Existing loans that evidence strong payment history but document less than average strength, financial condition, record of earnings, or projected cash flows with which to service the debt.
- **Special Mention** – Loans in this category are currently protected but show one or more potential weaknesses and risks which may inadequately protect collectability or borrower's ability to meet repayment terms at some future date if the weakness or weaknesses are not monitored or remediated.
- **Substandard** – Loans that are inadequately protected by the repayment capacity of the borrower or the current sound net worth of the collateral pledged, if any. Loans in this category have well defined weaknesses and risks that jeopardize the repayment. They are characterized by the distinct possibility that some loss may be sustained if the deficiencies are not remediated.
- **Doubtful** – Loans that have all the weaknesses of loans classified as "Substandard" with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

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

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The following tables present credit risk ratings by loan segment as of September 30, 2019 and December 31, 2018:

Risk Rating:	September 30, 2019						
	Mortgage Loans				Nonmortgage Loans		Total Loans
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	
Pass	\$ 388,267	\$ 243,599	\$ 191,938	\$ 77,836	\$ 11,040	\$ 1,252	\$ 913,932
Special mention	2,779	—	—	19,746	—	—	22,525
Substandard	8,862	1,045	4,014	8,542	—	—	22,463
<b>Total</b>	<u>\$ 399,908</u>	<u>\$ 244,644</u>	<u>\$ 195,952</u>	<u>\$ 106,124</u>	<u>\$ 11,040</u>	<u>\$ 1,252</u>	<u>\$ 958,920</u>

Risk Rating:	December 31, 2018						
	Mortgage Loans				Nonmortgage Loans		Total Loans
	1-4 Family	Multifamily	Nonresidential	Construction and Land	Business	Consumer	
Pass	\$ 383,123	\$ 231,422	\$ 195,327	\$ 71,438	\$ 14,324	\$ 1,068	\$ 896,702
Special mention	3,728	775	—	8,505	1,386	—	14,394
Substandard	9,134	312	1,590	7,629	—	—	18,665
<b>Total</b>	<u>\$ 395,985</u>	<u>\$ 232,509</u>	<u>\$ 196,917</u>	<u>\$ 87,572</u>	<u>\$ 15,710</u>	<u>\$ 1,068</u>	<u>\$ 929,761</u>

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

An aging analysis of loans, as of September 30, 2019 and December 31, 2018, is as follows:

	September 30, 2019						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual Loans	90 Days or More Accruing
<b>Mortgage loans:</b>							
1-4 Family residential							
Investor-Owned	\$ 307,984	\$ —	\$ —	\$ 1,081	\$ 309,065	\$ 1,752	\$ —
Owner-Occupied	88,735	—	214	1,894	90,843	3,540	—
Multifamily residential	244,644	—	—	—	244,644	—	—
Nonresidential properties	192,257	—	447	3,248	195,952	3,746	—
Construction and land	105,975	—	—	149	106,124	1,292	—
<b>Nonmortgage loans:</b>							
Business	11,040	—	—	—	11,040	—	—
Consumer	1,252	—	—	—	1,252	—	—
<b>Total</b>	<b>\$ 951,887</b>	<b>\$ —</b>	<b>\$ 661</b>	<b>\$ 6,372</b>	<b>\$ 958,920</b>	<b>\$ 10,330</b>	<b>\$ —</b>
	December 31, 2018						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual Loans	90 Days or More Accruing
<b>Mortgage loans:</b>							
1-4 Family residential							
Investor-Owned	\$ 296,188	\$ 6,539	\$ 470	\$ —	\$ 303,197	\$ 1,258	\$ —
Owner-Occupied	89,610	1,609	574	995	92,788	3,079	—
Multifamily residential	231,514	995	—	—	232,509	16	—
Nonresidential properties	195,861	—	4	1,052	196,917	1,310	—
Construction and land	87,572	—	—	—	87,572	1,115	—
<b>Nonmortgage loans:</b>							
Business	15,418	292	—	—	15,710	—	—
Consumer	1,068	—	—	—	1,068	—	—
<b>Total</b>	<b>\$ 917,231</b>	<b>\$ 9,435</b>	<b>\$ 1,048</b>	<b>\$ 2,047</b>	<b>\$ 929,761</b>	<b>\$ 6,778</b>	<b>\$ —</b>

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The following schedules detail the composition of the allowance for loan losses and the related recorded investment in loans as of September 30, 2019 and 2018, and December 31, 2018:

	For the Nine Months Ended September 30, 2019								
	Mortgage Loans					Nonmortgage Loans			Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	For the Period
Allowance for loan losses:									
Balance, beginning of period	\$ 3,799	\$ 1,208	\$ 3,829	\$ 1,925	\$ 1,631	\$ 260	\$ 7	\$ —	\$ 12,659
Provision charged to expense	(297)	(139)	(86)	(222)	217	749	(1)	(58)	163
Losses charged-off	—	—	—	—	—	(782)	—	—	(782)
Recoveries	23	—	—	7	—	30	2	58	120
Balance, end of period	<u>\$ 3,525</u>	<u>\$ 1,069</u>	<u>\$ 3,743</u>	<u>\$ 1,710</u>	<u>\$ 1,848</u>	<u>\$ 257</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 12,160</u>
Ending balance: individually evaluated for impairment	\$ 266	\$ 158	\$ —	\$ 32	\$ —	\$ 33	\$ —	\$ —	\$ 489
Ending balance: collectively evaluated for impairment	3,259	911	3,743	1,678	1,848	224	8	—	11,671
Total	<u>\$ 3,525</u>	<u>\$ 1,069</u>	<u>\$ 3,743</u>	<u>\$ 1,710</u>	<u>\$ 1,848</u>	<u>\$ 257</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 12,160</u>
Loans:									
Ending balance: individually evaluated for impairment	\$ 7,011	\$ 5,636	\$ —	\$ 5,103	\$ 1,303	\$ 35	\$ —	\$ —	\$ 19,088
Ending balance: collectively evaluated for impairment	302,054	85,207	244,644	190,849	104,821	11,005	1,252	—	939,832
Total	<u>\$ 309,065</u>	<u>\$ 90,843</u>	<u>\$ 244,644</u>	<u>\$ 195,952</u>	<u>\$ 106,124</u>	<u>\$ 11,040</u>	<u>\$ 1,252</u>	<u>\$ —</u>	<u>\$ 958,920</u>

	For the Three Months Ended September 30, 2019								
	Mortgage Loans					Nonmortgage Loans			Total
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	For the Period
Allowance for loan losses:									
Balance, beginning of period	\$ 3,574	\$ 1,168	\$ 3,713	\$ 1,928	\$ 1,533	\$ 533	\$ 11	\$ 58	\$ 12,518
Provision charged to expense	(49)	(99)	30	(220)	315	98	(3)	(58)	14
Losses charged-off	—	—	—	—	—	(380)	—	—	(380)
Recoveries	—	—	—	2	—	6	—	—	8
Balance, end of period	<u>\$ 3,525</u>	<u>\$ 1,069</u>	<u>\$ 3,743</u>	<u>\$ 1,710</u>	<u>\$ 1,848</u>	<u>\$ 257</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 12,160</u>



**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

	For the Nine Months Ended September 30, 2018								Total
	Mortgage Loans				Nonmortgage Loans				
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	
Allowance for loan losses:									
Balance, beginning of period	\$ 3,716	\$ 1,402	\$ 3,109	\$ 1,424	\$ 1,205	\$ 209	\$ 6	\$ —	\$ 11,071
Provision charged to expense	5	(292)	538	454	362	(30)	(3)	—	1,034
Losses charged-off	—	—	—	—	—	(18)	—	—	(18)
Recoveries	2	175	—	7	—	91	4	—	279
Balance, end of period	<u>\$ 3,723</u>	<u>\$ 1,285</u>	<u>\$ 3,647</u>	<u>\$ 1,885</u>	<u>\$ 1,567</u>	<u>\$ 252</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 12,366</u>
Ending balance: individually evaluated for impairment	\$ 353	\$ 287	\$ —	\$ 36	\$ —	\$ 11	\$ —	\$ —	\$ 687
Ending balance: collectively evaluated for impairment	3,370	998	3,647	1,849	1,567	241	7	—	11,679
Total	<u>\$ 3,723</u>	<u>\$ 1,285</u>	<u>\$ 3,647</u>	<u>\$ 1,885</u>	<u>\$ 1,567</u>	<u>\$ 252</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 12,366</u>
Loans:									
Ending balance: individually evaluated for impairment	\$ 6,506	\$ 6,971	\$ —	\$ 2,597	\$ 1,103	\$ 408	\$ —	\$ —	\$ 17,585
Ending balance: collectively evaluated for impairment	289,286	88,493	219,958	189,006	84,190	15,424	992	—	887,349
Total	<u>\$ 295,792</u>	<u>\$ 95,464</u>	<u>\$ 219,958</u>	<u>\$ 191,603</u>	<u>\$ 85,293</u>	<u>\$ 15,832</u>	<u>\$ 992</u>	<u>\$ —</u>	<u>\$ 904,934</u>

	For the Three Months Ended September 30, 2018								Total
	Mortgage Loans				Nonmortgage Loans				
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated	
Allowance for loan losses:									
Balance, beginning of period	\$ 3,687	\$ 1,265	\$ 3,640	\$ 1,679	\$ 1,291	\$ 180	\$ 9	\$ —	\$ 11,751
Provision charged to expense	36	18	7	203	276	65	(3)	—	602
Losses charged-off	—	—	—	—	—	—	—	—	—
Recoveries	—	2	—	3	—	7	1	—	13
Balance, end of period	<u>\$ 3,723</u>	<u>\$ 1,285</u>	<u>\$ 3,647</u>	<u>\$ 1,885</u>	<u>\$ 1,567</u>	<u>\$ 252</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 12,366</u>

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

	For the Year Ended December 31, 2018								Total	
	Mortgage Loans					Nonmortgage Loans				For the Period
	1-4 Family Investor Owned	1-4 Family Owner Occupied	Multifamily	Nonresidential	Construction and Land	Business	Consumer	Unallocated		
<b>Allowance for loan losses:</b>										
Balance, beginning of year	\$ 3,716	\$ 1,402	\$ 3,109	\$ 1,424	\$ 1,205	\$ 209	\$ 6	\$ —	\$ 11,071	
Provision charged to expense	82	(444)	720	492	426	(37)	10	—	1,249	
Losses charged-off	—	—	—	—	—	(34)	(14)	—	(48)	
Recoveries	1	250	—	9	—	122	5	—	387	
Balance, end of year	<u>\$ 3,799</u>	<u>\$ 1,208</u>	<u>\$ 3,829</u>	<u>\$ 1,925</u>	<u>\$ 1,631</u>	<u>\$ 260</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 12,659</u>	
Ending balance: individually evaluated for impairment	\$ 349	\$ 234	\$ —	\$ 35	\$ —	\$ —	\$ —	\$ —	\$ 618	
Ending balance: collectively evaluated for impairment	3,450	974	3,829	1,890	1,631	260	7	—	12,041	
<b>Total</b>	<u>\$ 3,799</u>	<u>\$ 1,208</u>	<u>\$ 3,829</u>	<u>\$ 1,925</u>	<u>\$ 1,631</u>	<u>\$ 260</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 12,659</u>	
<b>Loans:</b>										
Ending balance: individually evaluated for impairment	\$ 6,452	\$ 6,525	\$ 16	\$ 2,750	\$ 1,108	\$ 374	\$ —	\$ —	\$ 17,225	
Ending balance: collectively evaluated for impairment	296,745	86,263	232,493	194,167	86,464	15,336	1,068	—	912,536	
<b>Total</b>	<u>\$ 303,197</u>	<u>\$ 92,788</u>	<u>\$ 232,509</u>	<u>\$ 196,917</u>	<u>\$ 87,572</u>	<u>\$ 15,710</u>	<u>\$ 1,068</u>	<u>\$ —</u>	<u>\$ 929,761</u>	

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

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The following information relates to impaired loans as of and for the nine months ended September 30, 2019 and 2018 and for the year ended December 31, 2018:

	Unpaid Contractual Principal	Recorded Investment With No	Recorded Investment With	Total Recorded	Related	Average Recorded	Interest Income Recognized on a Cash Basis
<b>For the Nine Months Ended September 30, 2019</b>							
	<u>Balance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Investment</u>	<u>Allowance</u>	<u>Investment</u>	
Mortgage loans:							
1-4 Family residential	\$ 13,686	\$ 8,460	\$ 4,187	\$ 12,647	\$ 424	\$ 13,084	\$ 263
Multifamily residential	—	—	—	—	—	7	—
Nonresidential properties	5,211	4,724	379	5,103	32	3,676	85
Construction and land	1,615	1,303	—	1,303	—	1,238	4
Nonmortgage loans:							
Business	38	—	35	35	33	232	5
Consumer	—	—	—	—	—	1	—
Total	<u>\$ 20,550</u>	<u>\$ 14,487</u>	<u>\$ 4,601</u>	<u>\$ 19,088</u>	<u>\$ 489</u>	<u>\$ 18,238</u>	<u>\$ 357</u>
<b>For the Nine Months Ended September 30, 2018</b>							
	<u>Balance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Investment</u>	<u>Allowance</u>	<u>Investment</u>	
Mortgage loans:							
1-4 Family residential	\$ 14,717	\$ 7,083	\$ 6,394	\$ 13,477	\$ 640	\$ 16,281	\$ 550
Multifamily residential	—	—	—	—	—	104	—
Nonresidential properties	2,807	2,114	483	2,597	36	3,141	104
Construction and land	1,329	1,103	—	1,103	—	1,092	—
Nonmortgage loans:							
Business	450	398	10	408	11	488	17
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 19,303</u>	<u>\$ 10,698</u>	<u>\$ 6,887</u>	<u>\$ 17,585</u>	<u>\$ 687</u>	<u>\$ 21,106</u>	<u>\$ 671</u>
<b>December 31, 2018</b>							
	<u>Balance</u>	<u>Allowance</u>	<u>Allowance</u>	<u>Investment</u>	<u>Allowance</u>	<u>Investment</u>	
Mortgage loans:							
1-4 Family residential	\$ 12,985	\$ 7,080	\$ 5,898	\$ 12,978	\$ 583	\$ 15,163	\$ 758
Multifamily residential	16	16	—	16	—	36	3
Nonresidential properties	2,748	2,270	480	2,750	35	3,230	172
Construction and land	1,115	1,107	—	1,107	—	1,094	—
Nonmortgage loans:							
Business	374	374	—	374	—	454	22
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 17,238</u>	<u>\$ 10,847</u>	<u>\$ 6,378</u>	<u>\$ 17,225</u>	<u>\$ 618</u>	<u>\$ 19,977</u>	<u>\$ 955</u>

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 4. Loans Receivable and Allowance for Loan Losses (Continued)**

The loan portfolio also includes certain loans that have been modified to troubled debt restructurings. Under applicable standards, loans are modified to troubled debt restructurings when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, unless it results in a delay in payment that is insignificant. These concessions could include a reduction of interest rate on the loan, payment and maturity extensions, forbearance, or other actions intended to maximize collections. When a loan is modified to a troubled debt restructuring, management evaluates for any possible impairment using either the discounted cash flows method, where the value of the modified loan is based on the present value of expected cash flows, discounted at the contractual interest rate of the original loan agreement, or by using the fair value of the collateral less selling costs if repayment under the modified terms becomes doubtful. If management determines that the value of the modified loan in a troubled debt restructuring is less than the recorded investment in the loan, impairment is recognized through a specific allowance estimate or charge-off against the allowance for loan losses.

During the nine months ended September 30, 2019, there was one troubled debt restructuring and as of and for the year ended December 31, 2018, there were no loans restructured as troubled debt restructuring.

	Loans Restructured During Nine Months Ended September 30, 2019			All TDRs with a payment default within 12 months following the modification	
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	1	\$ 275	\$ 283	—	\$ —
Total	1	\$ 275	\$ 283	—	\$ —
Combination of rate, maturity, other	1	\$ 275	\$ 283	—	\$ —
Total	1	\$ 275	\$ 283	—	\$ —

	Loans Restructured During Year Ended December 31, 2018			All TDRs with a payment default within 12 months following the modification	
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Balance of Loans at the Time of Default
Mortgages:					
1-4 Family	—	\$ —	\$ —	1	\$ 176
Total	—	\$ —	\$ —	1	\$ 176
Combination of rate, maturity, other	—	\$ —	\$ —	1	\$ 176
Total	—	\$ —	\$ —	1	\$ 176

At September 30, 2019, there were 36 troubled debt restructured loans totaling \$12,298 of which \$8,692 are on accrual status. At December 31, 2018, there were 40 troubled debt restructured loans totaling \$14,104 of which \$10,460 are on accrual status. There were no commitments to lend additional funds to borrowers whose loans have been modified in a troubled debt restructuring. The financial impact from the concessions made represents specific impairment reserves on these loans, which aggregated to \$489 and \$618 at September 30, 2019 and December 31, 2018, respectively.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 5. Premises and Equipment**

Premises and equipment at September 30, 2019 and December 31, 2018 are summarized as follows:

	September 30, 2019	December 31, 2018
Land	\$ 3,979	\$ 3,979
Buildings and improvements	17,113	16,423
Leasehold improvements	25,321	23,430
Furniture, fixtures and equipment	8,443	7,728
	<u>54,856</u>	<u>51,560</u>
Less: accumulated depreciation and amortization	(22,051)	(20,425)
<b>Total premises and equipment</b>	<u><u>\$ 32,805</u></u>	<u><u>\$ 31,135</u></u>

Depreciation and amortization expense amounted to \$567 and \$454 for the three months ended September 30, 2019 and 2018, respectively, and \$1,626 and \$1,307 for the nine months ended September 30, 2019 and 2018, respectively, and are included in occupancy and equipment in the accompanying consolidated statements of income. Leasehold improvements increased by \$1,891 to \$25,321 and buildings and improvements increased by \$690 to \$17,113 at September 30, 2019 mainly due to investments made to the branch network and other product delivery services as part of branch renovation initiative. Furniture, fixtures and equipment also increased by \$715 to \$8,443 at September 30, 2019, mainly as a result of investments in new Teller Cash Recyclers (TCRs) that are being installed in the branches.

**Note 6. Deposits**

Deposits at September 30, 2019 and December 31, 2018 are summarized as follows:

	September 30, 2019	December 31, 2018
Demand	\$ 104,181	\$ 115,923
Interest-bearing deposits:		
NOW/IOLA accounts	28,600	30,783
Money market accounts	140,999	116,175
Savings accounts	115,402	122,791
<b>Total savings, NOW and money market</b>	<u>285,001</u>	<u>269,749</u>
Certificates of deposit of \$250K or more	145,068	90,195
Certificates of deposit less than \$250K	223,595	333,891
<b>Total certificates of deposit</b>	<u>368,663</u>	<u>424,086</u>
Total interest-bearing deposits	653,664	693,835
<b>Total deposits</b>	<u><u>\$ 757,845</u></u>	<u><u>\$ 809,758</u></u>

At September 30, 2019 scheduled maturities of certificates of deposit were as follows:

<u>September 30,</u>	
2020	\$ 183,871
2021	111,870
2022	53,327
2023	9,268
2024	10,327
	<u><u>\$ 368,663</u></u>

Overdrawn deposit accounts that have been reclassified to loans amounted to \$75 and \$241 as of September 30, 2019 and December 31, 2018, respectively.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 7. Borrowings**

**FHLBNY Advances:** The Bank is a member of the FHLBNY. At September 30, 2019, the Bank had the ability to borrow from the FHLBNY based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLBNY Statement of Credit Policy, at the time of the borrowing. In accordance with an agreement with the FHLBNY, the qualified collateral must be free and clear of liens, pledges and encumbrances.

The Bank had \$134,404 and \$44,404 of outstanding term advances from the FHLBNY at September 30, 2019 and December 31, 2018, respectively. The Bank also had an overnight line of credit from FHLBNY in the amount of \$35,000 at September 30, 2019. Additionally, the Bank had an unsecured line of credit in the amount of \$25,000 with a correspondent bank at September 30, 2019 and December 31, 2018, of which \$0 and \$25,000 were outstanding as of September 30, 2019 and December 31, 2018, respectively. The Bank also had a guarantee from the FHLBNY through a standby letter of credit of \$3,455 at September 30, 2019 and \$7,639 at December 31, 2018, respectively.

Borrowed funds at September 30, 2019 and December 31, 2018 consist of the following and are summarized by maturity and call date below:

	September 30, 2019			December 31, 2018		
	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate	Scheduled Maturity	Redeemable at Call Date	Weighted Average Rate
Correspondent Bank Overnight line of credit advance	\$ —	\$ —	—%	\$ 25,000	\$ 25,000	2.64%
FHLBNY Overnight line of credit advance	35,000	35,000	2.10	—	—	—
<b>FHLBNY Term advances ending:</b>						
2019	30,000	30,000	2.10	—	—	—
2020	8,029	8,029	2.86	8,029	8,029	2.86
2021	3,000	3,000	1.84	3,000	3,000	1.84
2022	65,000	65,000	1.89	5,000	5,000	1.97
2023	28,375	28,375	2.82	28,375	28,375	2.82
	<u>\$ 169,404</u>	<u>\$ 169,404</u>	2.17%	<u>\$ 69,404</u>	<u>\$ 69,404</u>	2.69%

Interest expense on advances totaled \$533 and \$276 for the three months ended September 30, 2019 and 2018, and \$1,211 and \$578 for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019 and December 31, 2018, the Bank had eligible collateral of approximately \$297,087 and \$280,457, respectively, in residential 1-4 family and multifamily mortgage loans available to secure advances from the FHLBNY.

**Note 8. Income Taxes**

The provision for income taxes for the three and nine months ended September 30, 2019 and 2018 consist of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Federal:				
Current	\$ 237	\$ 400	\$ 888	\$ 595
Deferred	122	(205)	89	(15)
	<u>359</u>	<u>195</u>	<u>977</u>	<u>580</u>
State and local:				
Current	53	90	238	212
Deferred	(631)	(401)	(1,135)	(757)
	<u>(578)</u>	<u>(311)</u>	<u>(897)</u>	<u>(545)</u>
Valuation allowance	506	304	887	588
Provision for income taxes	<u>\$ 287</u>	<u>\$ 188</u>	<u>\$ 967</u>	<u>\$ 623</u>

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% for the three and nine months ended September 30, 2019 and 2018, respectively, to income before income taxes as a result of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Income tax, at federal rate	\$ 209	\$ 123	\$ 692	\$ 559
State and local tax, net of federal taxes	(455)	(246)	(707)	(430)
Valuation allowance, net of the federal benefit	506	304	887	588
Other	27	7	95	(94)
	<u>\$ 287</u>	<u>\$ 188</u>	<u>\$ 967</u>	<u>\$ 623</u>

On December 22, 2017, the U.S. Government signed into law the “Tax Cuts and Jobs Act” (the “Tax Act”) which, beginning in 2018, reduced the Company’s corporate income tax rate from 34% to 21%, but eliminated or increased certain permanent differences.

Management maintains a valuation allowance against its net New York State and New York City deferred tax assets as it is unlikely these deferred tax assets will impact the Company’s tax liability in future years. The valuation allowance increased by \$887 and \$588 for the nine months ended September 30, 2019 and 2018, respectively.

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

At September 30, 2019 and December 31, 2018, the Company had no unrecognized tax benefits recorded related to uncertain tax positions. The Company does not expect that the total amount of unrecognized tax benefits will significantly increase in the next twelve months.

The Company is subject to U.S. federal income tax, New York State income tax, New Jersey income tax, and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2016.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 8. Income Taxes (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2019 and December 31, 2018 are presented below:

	September 30, 2019	December 31, 2018
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 3,837	\$ 3,939
Pension obligations	2,126	2,102
Interest on nonaccrual loans	233	74
Unrealized loss on available-for-sale securities	15	91
Amortization of intangible assets	90	102
Deferred rent payable	—	153
Net operating losses	3,908	3,111
Charitable contribution carryforward	1,620	1,694
Other	699	235
<b>Total gross deferred tax assets</b>	<b>12,528</b>	<b>11,501</b>
<b>Deferred tax liabilities:</b>		
Cumulative contribution in excess of net periodic benefit costs, net	3,188	3,120
Depreciation and amortization of premises and equipment	54	222
Deferred loan fees	564	438
Other	6	6
<b>Total gross deferred tax liabilities</b>	<b>3,812</b>	<b>3,786</b>
<b>Valuation allowance</b>	<b>4,791</b>	<b>3,904</b>
<b>Net deferred tax assets</b>	<b>\$ 3,925</b>	<b>\$ 3,811</b>

**Note 9. Compensation and Benefit Plans**

Defined Benefit Plan:

Effective January 1, 2007, the noncontributory defined benefit pension plan (the “Old Pension Plan”) of the Company was replaced with a qualified defined contribution plan (the “401(k) Plan”) as noted in more detail below. The Old Pension Plan covered substantially all employees. Employees were eligible to participate after one year of service. Normal retirement age was 65, with an early retirement provided for at age 55. The Old Pension Plan was effectively frozen on May 31, 2007 (the curtailment date) and this resulted in an actuarial reassessment of the Old Pension Plan’s future estimated obligations. All participants that are vested with the Old Pension Plan will remain in the Old Pension Plan and will receive the full accrued benefit, as defined, upon retirement, in accordance with the plan document.



**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 9. Compensation and Benefit Plans (Continued)**

The following table sets forth the Old Pension Plan's funded status and amounts recognized in the consolidated statements of financial condition as of September 30, 2019 and December 31, 2018 using a measurement date as of September 30, 2019 and December 31, 2018, respectively:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Projected benefit obligation	\$ (14,175)	\$ (14,244)
Fair value of plan assets	14,179	14,416
Funded status	<u>\$ 4</u>	<u>\$ 172</u>
Accumulated benefit obligation	<u>\$ (14,175)</u>	<u>\$ (14,244)</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<u>Changes in benefit obligation:</u>		
Beginning of period	\$ 14,244	\$ 15,883
Service cost	29	39
Interest Cost	442	542
Interest rate change	—	(1,691)
Mortality change	—	(41)
Loss on accumulated benefit obligations	4	243
Administrative cost	(29)	(39)
Benefits paid	(515)	(692)
End of period	<u>\$ 14,175</u>	<u>\$ 14,244</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<u>Changes in plan assets:</u>		
Fair value of plan assets, beginning of period	\$ 14,416	\$ 14,732
Actual return on plan assets	307	415
Benefits paid	(515)	(692)
Administrative expenses paid	(29)	(39)
Fair value of plan assets, end of period	<u>\$ 14,179</u>	<u>\$ 14,416</u>

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 9. Compensation and Benefit Plans (Continued)**

Pretax amounts recognized in accumulated other comprehensive loss, which will be amortized into net periodic benefit cost over the coming years, were \$9,972 and \$9,856 at September 30, 2019 and December 31, 2018, respectively.

The components of net periodic benefit costs are as follows for the nine months ended September 30, 2019 and 2018:

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Service cost	\$ 29	\$ 30
Interest cost	442	406
Expected return on plan assets	(631)	(645)
Amortization of prior service cost	18	19
Amortization of loss	194	224
Net periodic benefit cost	<u>\$ 52</u>	<u>\$ 34</u>

Weighted-average assumptions used to determine the net benefit obligations consisted of the following as of September 30, 2019 and December 31, 2018:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Discount rate	4.25%	4.25%
Rate of compensation increase	0.00%	0.00%

Weighted-average assumptions used to determine the net benefit cost consisted of the following for nine months ended September 30, 2019 and 2018:

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Discount rate	4.25%	3.50%
Rate of compensation increase	0.00%	0.00%
Expected long-term rate of return on assets	6.00%	6.00%

The expected rate of return on plan assets is estimated based on the plan's historical performance of return on assets.

The investment policy for plan assets is to manage the portfolio to preserve principal and liquidity while maximizing the return on the plan's investment portfolio through the full investment of available funds. Plan assets are currently maintained in a guaranteed deposit account with Prudential Retirement Insurance and Annuity Company, earning interest at rates that are determined at the beginning of each year.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 9. Compensation and Benefit Plans (Continued)**

Pension assets consist solely of funds on deposit in a guaranteed deposit account. The fair value of the pension plan assets at September 30, 2019 and December 31, 2018 was \$14,179 and \$14,416, respectively.

The guaranteed deposit account is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Such fair value measurement is considered a Level 3 measurement.

Benefits paid for the nine months ended September 30, 2019 and 2018 were \$515 and \$524, respectively. There were no employer contributions during the nine months ended September 30, 2019 and 2018.

Employee benefit payments expected to be paid in the future are as follows:

2019	\$	199
2020		706
2021		700
2022		718
2023		700
Thereafter		3,569
	\$	<u>6,592</u>

401(k) Plan:

The Company also provides a qualified defined contribution retirement plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan also qualifies under the Internal Revenue Service safe harbor provisions, as defined. Employees are eligible to participate in the 401(k) Plan after completing one year of service. The 401(k) Plan provides for elective employee/participant deferrals of income. Discretionary matching, profit-sharing, and safe harbor contributions, not to exceed 4% of employee compensation and profit-sharing contributions may be provided. 401(k) expenses recorded in the consolidated statements of income amounted to \$89 and \$76 for the three months ended September 30, 2019 and 2018, respectively, and \$256 and \$277 for the nine months ended September 30, 2019 and 2018, respectively.

Employee Stock Ownership Plan:

In connection with the reorganization, the Company established an ESOP for the exclusive benefit of eligible employees. The ESOP borrowed \$7,238 from the Company sufficient to purchase 723,751 shares (approximately 3.92% of the common stock sold in the Company's initial stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Company and dividends received by the ESOP. Contributions will be applied to repay interest on the loan first, and then the remainder will be applied to principal. The loan is expected to be repaid over a period of 15 years. Shares purchased with the loan proceeds are held by the trustee in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants, subject to applicable regulations.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 9. Compensation and Benefit Plans (Continued)**

Contributions to the ESOP are to be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, compensation expense equal to the average market price of the shares for the respective periods are recognized, and the shares become outstanding for earnings per share computations.

A summary of the ESOP shares as of September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Shares committed-to-be released	36,189	48,250
Shares to be allocated to participants	96,500	48,250
Unallocated shares	591,062	627,251
Total	723,751	723,751
Fair value of unearned shares	\$ 8,310	\$ 7,991

At September 30, 2019 and December 31, 2018, the Company had \$6,308 outstanding of funds borrowed for the ESOP. The Company recognized ESOP related compensation expense, including ESOP equalization expense, of \$184 and \$201 for the three months ended September 30, 2019 and 2018 and \$574 and \$614 for the nine months ended September 30, 2019 and 2018, respectively.

Supplemental Executive Retirement Plan:

The Bank maintains a non-qualified supplemental executive retirement plan (“SERP”) for the benefit of one key executive. The SERP expense recognized for the three months ended September 30, 2019 and 2018 was \$12 and \$15, respectively, and for the nine months ended September 30, 2019 and 2018 was \$45 and \$45, respectively.

2018 Incentive Plan

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

Under the 2018 Incentive Plan, the Company made grants equal to 674,645 shares on December 4, 2018 which include 119,176 incentive options to executive officers, 44,590 non-qualified options to outside directors, 40,000 restricted stock units to officers, 322,254 restricted stock units to executive officers and 148,625 shares of restricted stock units to outside directors. These awards vest at the earliest on December 4, 2019, and at the latest on December 4, 2025. Awards to directors generally vest 20% annually beginning with the first anniversary of the date of grant. However, awards to a director with fewer than ten years of service as a director at the time of grant vest at a slower rate. In addition, awards to a director with fewer than five years of service at the time of grant vest over a longer period and will not become fully vested until the director has completed ten years of service. Awards to the executive officer who is not a director vest 20% annually beginning on December 4, 2020. As of September 30, 2019 and December 31, 2018, the maximum number of stock options and SARs and the maximum number of shares of common stock that may be issued as restricted stock or restricted stock units remaining to be awarded under the Incentive Plan for both periods were 265,476 and 0, respectively. If the 2018 Incentive Plan’s flex feature described above were fully utilized, the maximum number of shares of common stock that may be awarded as restricted stock or restricted stock units would be 88,492, but would eliminate the availability of stock options and SARs available for award.

**PDL Community Bancorp and Subsidiaries**  
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**Note 9. Compensation and Benefit Plans (Continued)**

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

A summary of the Company's restricted stock units awards activity and related information for the nine months ended September 30, 2019 and year ended December 31, 2018 are as follows:

	<b>September 30, 2019</b>	
	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Non-vested, beginning of year	510,879	\$ 12.77
Granted	29,725	12.93
Forfeited	(29,725)	12.77
Non-vested at September 30	<u>510,879</u>	<u>\$ 12.78</u>
	<b>December 31, 2018</b>	
	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Non-vested, beginning of year	—	\$ —
Granted	510,879	12.77
Forfeited	—	—
Non-vested at December 31	<u>510,879</u>	<u>\$ 12.77</u>

Compensation expense related to restricted stock units for the three and nine months ended September 30, 2019, was \$314 and \$923, respectively. There was no compensation expense related to restricted stock units for the three and nine months ended September 30, 2018.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
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**Note 9. Compensation and Benefit Plans (Continued)**

A summary of the Company's stock option awards activity and related information for the nine months ended September 30, 2019 and year ended December 31, 2018 are as follows:

	September 30, 2019		
	Options	Weighted-Average Exercise Price Per Share	Average Intrinsic Value
Outstanding, beginning of year	163,766	\$ 12.77	\$ —
Granted	8,918	12.93	—
Exercised	—	—	—
Forfeited	(8,918)	12.77	—
Outstanding at September 30	<u>163,766</u>	<u>\$ 12.78</u>	<u>\$ —</u>
Exercisable at September 30	—	\$ 12.78	\$ —

  

	December 31, 2018		
	Options	Weighted-Average Exercise Price Per Share	Average Intrinsic Value
Outstanding, beginning of year	—	\$ —	—
Granted	163,766	12.77	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at December 31	<u>163,766</u>	<u>\$ 12.77</u>	<u>\$ —</u>
Exercisable at December 31	—	\$ 12.77	\$ —

The weighted-average exercise price for the options as of September 30, 2019 was \$12.78 per share and the weighted average remaining contractual life is 9.2 years. There were no shares exercisable as of September 30, 2019 and December 31, 2018. Total compensation cost related to stock options recognized was \$29 and \$77 for the three and nine months ended September 30, 2019, respectively. The weighted average period over which it is expected to be recognized is 5.7 years. There was no compensation expense related to stock options for the three and nine months ended September 30, 2018.

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

	Nine Months Ended September 30, 2019
Dividend yield	0.00%
Expected life	6.5 years
Expected volatility	16.94%
Risk-free interest rate	2.51%
Weighted average grant date fair value	\$4.01

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

Treasury Stock:

The Company adopted a share repurchase program effective March 25, 2019 which expired on September 24, 2019. Under the program, the Company was permitted to repurchased up to 923,151 shares of the Company's stock, or approximately 5% of the Company's then current issued and outstanding shares. As of September 30, 2019, the Company had repurchased 886,325 shares at a weighted average price of \$14.29 which is reported as treasury stock in the consolidated statement of financial condition.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 10. Earnings Per Share**

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

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(Dollars in thousands except share data)			
Net income for the period	\$ 709	\$ 402	\$ 2,327	\$ 2,041
Shares outstanding for basic EPS:				
Weighted average shares outstanding	17,405,296	18,463,028	18,012,360	18,463,028
Less: Weighted average unallocated Employee Stock Ownership Plan (ESOP) shares	602,994	651,244	614,967	663,217
Basic weighted shares outstanding	16,802,302	17,811,784	17,397,393	17,799,811
Basic earnings per share	\$ 0.04	\$ 0.02	\$ 0.13	\$ 0.11
Potential dilutive common shares:				
Add: Dilutive effect of restricted stock awards and stock options	26,986	—	74,242	—
Diluted weighted average shares outstanding	16,829,288	17,811,784	17,471,635	17,799,811
Diluted earnings per share	\$ 0.04	\$ 0.02	\$ 0.13	\$ 0.11

**Note 11. Commitments, Contingencies and Credit Risk**

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

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless. The same credit policies are used in making commitments and contractual obligations as for on-balance-sheet instruments. Financial instruments whose contractual amounts represent credit risk at September 30, 2019 and December 31, 2018 are as follows:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Commitments to grant mortgage loans	\$ 61,173	\$ 52,017
Unfunded commitments under lines of credit	41,525	44,752
Standby letters of credit	3,455	7,759
	\$ 106,153	\$ 104,528

**Note 11. Commitments, Contingencies and Credit Risk (Continued)**

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

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

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

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

Lease Commitments: At September 30, 2019, there are noncancelable operating leases for office space that expire on various dates through 2034. One such lease contains an escalation clause providing for increased rental based primarily on increases in real estate taxes. Rental expenses under operating leases, included in occupancy and equipment, totaled \$372 and \$351 for the three months ended September 30, 2019 and 2018, and \$1,101 and \$1,097 for the nine months ended September 30, 2019 and 2018, respectively.

The projected minimum rental payments under the terms of the leases at September 30, 2019 are as follows:

	<u>September 30,</u>
Remainder of 2019	\$ 327
2020	1,345
2021	1,382
2022	1,294
2023	1,279
2024	1,316
Thereafter	5,660
	<u>\$ 12,603</u>

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

**Note 12. Fair Value**

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

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



**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
**(Dollars in thousands, unless otherwise stated)**

**Note 12. Fair Value (Continued)**

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

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

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

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

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

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

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

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is determined from actual bids from bona fide investors. These assets are classified as Level 2.

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

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

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

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

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 12. Fair Value (Continued)**

**Pension Plan Assets:** The pension plan asset for the defined benefit plan represents the guaranteed deposit account on the Old Pension Plan. The guaranteed deposit account is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer. Such fair value measurement is considered a Level 3 measurement.

The following tables detail the assets that are carried at fair value and measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, and indicate the level within the fair value hierarchy utilized to determine the fair value:

Description	Total	September 30, 2019		
		Level 1	Level 2	Level 3
<b>Available-for-Sale Securities:</b>				
U.S. government and federal agencies	\$ 20,852	\$ —	\$ 20,852	\$ —
U.S. Treasury	29,956	29,956	—	—
<b>Mortgage-Backed Securities:</b>				
FNMA Certificates	563	—	563	—
GNMA Certificates	595	—	595	—
	<u>\$ 51,966</u>	<u>\$ 29,956</u>	<u>\$ 22,010</u>	<u>\$ —</u>

Description	Total	December 31, 2018		
		Level 1	Level 2	Level 3
<b>Available-for-Sale Securities:</b>				
U.S. government and federal agencies	\$ 20,515	\$ —	\$ 20,515	\$ —
U.S. Treasury	4,995	4,995	—	—
<b>Mortgage-Backed Securities:</b>				
FNMA Certificates	759	—	759	—
GNMA Certificates	875	—	875	—
	<u>\$ 27,144</u>	<u>\$ 4,995</u>	<u>\$ 22,149</u>	<u>\$ —</u>

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

The following tables detail the assets carried at fair value and measured at fair value on a nonrecurring basis as of September 30, 2019 and December 31, 2018 and indicate the fair value hierarchy utilized to determine the fair value:

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans	<u>\$ 19,088</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,088</u>

  

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans	<u>\$ 17,225</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,225</u>

Losses on assets carried at fair value on a nonrecurring basis were *de minimis* for the three and nine months ended September 30, 2019 and 2018, respectively.

The fair value information about financial instruments are disclosed, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair value amounts for 2019 and 2018 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each period.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 12. Fair Value (Continued)**

The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other banks may not be meaningful.

As of September 30, 2019 and December 31, 2018, the book balances and estimated fair values of the Company's financial instruments were as follows:

	Carrying Amount	Fair Value Measurements			Total
		Level 1	Level 2	Level 3	
<b>September 30, 2019</b>					
Financial assets:					
Cash and cash equivalents	\$ 47,390	\$ 47,390	\$ —	\$ —	\$ 47,390
Available-for-sale securities	51,966	29,956	22,010	—	51,966
Loans receivable, net	948,548	—	—	968,088	968,088
Accrued interest receivable	3,893	—	3,893	—	3,893
FHLBNY stock	8,659	8,659	—	—	8,659
Financial liabilities:					
Deposits:					
Demand deposits	104,181	104,181	—	—	104,181
Interest-bearing deposits	285,001	285,001	—	—	285,001
Certificates of deposit	368,663	—	371,791	—	371,791
Advance payments by borrowers for taxes and insurance	7,780	—	7,780	—	7,780
Advances from FHLBNY	169,404	169,404	—	—	169,404
Accrued interest payable	81	—	81	—	81
<b>December 31, 2018</b>					
Financial assets:					
Cash and cash equivalents	\$ 69,778	\$ 69,778	\$ —	\$ —	\$ 69,778
Available-for-sale securities	27,144	4,995	22,149	—	27,144
Loans receivable, net	918,509	—	—	926,867	926,867
Accrued interest receivable	3,795	—	3,795	—	3,795
FHLBNY stock	2,915	2,915	—	—	2,915
Financial liabilities:					
Deposits:					
Demand deposits	115,923	115,923	—	—	115,923
Interest-bearing deposits	269,749	269,749	—	—	269,749
Certificates of deposit	424,086	—	425,564	—	425,564
Advance payments by borrowers for taxes and insurance	6,037	—	6,037	—	6,037
Advances from FHLBNY	69,404	69,404	—	—	69,404
Accrued interest payable	63	—	63	—	63

Off-Balance-Sheet Instruments: Loan commitments on which the committed interest rate is less than the current market rate are insignificant at September 30, 2019 and December 31, 2018.

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)

**Note 13. Regulatory Capital Requirements**

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

Quantitative measures established by regulation require the maintenance of minimum amounts and ratios (set forth in the table below) of total risk-based and Tier 1 capital to risk-weighted assets (as defined), common equity Tier 1 capital (as defined), and Tier 1 capital to adjusted total assets (as defined) adjusted total assets (as defined). As of September 30, 2019 and December 31, 2018, all applicable capital adequacy requirements have been met.

The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0% for 2015 to 2.5% by 2019. The applicable capital buffer was 11.3% at September 30, 2019 and 11.4% at December 31, 2018.

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

The Company's and the Bank's actual capital amounts and ratios as of September 30, 2019 and December 31, 2018 as compared to regulatory requirements are as follows:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>September 30, 2019</b>						
<b><u>PDL Community Bancorp</u></b>						
Total Capital to Risk-Weighted Assets	\$ 178,496	22.40%	\$ 63,761	8.00%	\$ 79,701	10.00%
Tier 1 Capital to Risk-Weighted Assets	168,502	21.14%	47,820	6.00%	63,761	8.00%
Common Equity Tier 1 Capital Ratio	168,502	21.14%	35,865	4.50%	51,806	6.50%
Tier 1 Capital to Total Assets	168,502	15.98%	42,185	4.00%	52,732	5.00%
<b><u>Ponce Bank</u></b>						
Total Capital to Risk-Weighted Assets	\$ 153,434	19.29%	\$ 63,643	8.00%	\$ 79,554	10.00%
Tier 1 Capital to Risk-Weighted Assets	143,458	18.03%	47,732	6.00%	63,643	8.00%
Common Equity Tier 1 Capital Ratio	143,458	18.03%	35,799	4.50%	51,710	6.50%
Tier 1 Capital to Total Assets	143,458	13.62%	42,132	4.00%	52,665	5.00%

**PDL Community Bancorp and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Dollars in thousands, unless otherwise stated)  
**Note 13. Regulatory Capital Requirements (Continued)**

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2018</b>						
<b>PDL Community Bancorp</b>						
Total Capital to Risk-Weighted Assets	\$ 186,940	24.36%	\$ 61,385	8.00%	\$ 76,731	10.00%
Tier 1 Capital to Risk-Weighted Assets	177,307	23.11%	46,038	6.00%	61,385	8.00%
Common Equity Tier 1 Capital Ratio	177,307	23.11%	34,529	4.50%	49,875	6.50%
Tier 1 Capital to Total Assets	177,307	18.13%	39,114	4.00%	48,892	5.00%
<b>Ponce Bank</b>						
Total Capital to Risk-Weighted Assets	\$ 148,486	19.39%	\$ 61,261	8.00%	\$ 76,577	10.00%
Tier 1 Capital to Risk-Weighted Assets	138,872	18.14%	45,946	6.00%	61,261	8.00%
Common Equity Tier 1 Capital Ratio	138,872	18.14%	34,459	4.50%	49,775	6.50%
Tier 1 Capital to Total Assets	138,872	13.66%	40,652	4.00%	50,815	5.00%

**Note 14. Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) are as follows:

	September 30, 2019		
	December 31, 2018	Change	September 30, 2019
Unrealized gains (losses) on available-for-sale securities, net	\$ (291)	\$ 279	\$ (12)
Unrealized losses on pension benefits, net	(7,844)	(91)	(7,935)
Total	\$ (8,135)	\$ 188	\$ (7,947)

  

	December 31, 2018		
	December 31, 2017	Change	December 31, 2018
Unrealized losses on available-for-sale securities, net	\$ (221)	\$ (70)	\$ (291)
Unrealized losses on pension benefits, net	(7,630)	(214)	(7,844)
Total	\$ (7,851)	\$ (284)	\$ (8,135)

**Note 15. Transactions With Related Parties**

Directors and officers of the Company have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Aggregate loan transactions with related parties for the three and nine months ended September 30, 2019 and 2018 were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	\$ 1,256	\$ 1,396	\$ 1,278	\$ 1,351
Originations	—	50	20	161
Payments	(18)	(94)	(60)	(160)
Ending balance	\$ 1,238	\$ 1,352	\$ 1,238	\$ 1,352

The Company held deposits in the amount of \$7,332 and \$6,943 from officers and directors at September 30, 2019 and December 31, 2018, respectively.

**Note 16. Subsequent Events**

On November 8, 2019, the Company adopted a share repurchase program effective November 11, 2019. Under the repurchase program, the Company may repurchase up to 878,835 shares of its common stock, or approximately 5% of the presently outstanding shares. Repurchased shares will be held by the Company as treasury shares. The repurchase program may be suspended or terminated at any time without prior notice, and it will expire no later than May 10, 2020.

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

### General

Management's discussion and analysis of financial condition and results of operations at September 30, 2019 and December 31, 2018, and for the three and nine months ended September 30, 2019 and 2018, is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10-Q.

### Cautionary Note Regarding Forward-Looking Statements

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

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

These forward-looking statements are based on current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Management is under no duty to and does not assume any obligation to update any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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

- general economic conditions, either nationally or in the market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- the ability to access cost-effective funding;
- fluctuations in real estate values and real estate market conditions;
- demand for loans and deposits in the market area;
- the Company's ability to implement and change its business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce the Company's margins and yields, its mortgage banking revenues, the fair value of financial instruments or the level of loan originations, or increase the level of defaults, losses and prepayments on loans the Company have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements, including as a result of Basel III;
- the impact of the Dodd-Frank Act and the implementing regulations;
- changes in the quality or composition of the Company's loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third party providers to perform as expected;
- the Company's ability to manage market risk, credit risk and operational risk in the current economic environment;
- the Company's ability to enter new markets successfully and capitalize on growth opportunities;

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

Additional factors that may affect the Company's results are discussed in Form 10-K under the heading "Risk Factors" filed with the SEC on March 29, 2019. As of September 30, 2019, the risk factors of the Company have not changed materially from those disclosed in Form 10-K.

Because of these and a wide variety of other uncertainties, actual future results may be materially different from the results indicated by these forward-looking statements.

### **Critical Accounting Policies**

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

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

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

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

### **Comparison of Financial Condition at September 30, 2019 and December 31, 2018**

**Total Assets.** Total assets remained essentially unchanged at \$1.1 billion at September 30, 2019 and December 31, 2018.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased \$22.4 million, or 32.1%, to \$47.4 million at September 30, 2019, when compared to \$69.8 million at December 31, 2018. The decrease in cash and cash equivalents was primarily driven by a repayment of \$25.0 million of short-term advances to a correspondent bank, a decrease of \$55.4 million in certificates of deposits, an increase of \$29.2 million in gross loans and a \$30.0 million purchase of available-for-sale securities offset by increases of \$24.8 million in money market accounts and \$125.0 million in advances from FHLBNY.



**Available-for-sale Securities.** The composition of available-for-sale securities at September 30, 2019 and December 31, 2018 and the amounts maturing of each classification are summarized as follows:

	September 30, 2019		December 31, 2018	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
(Dollars in thousands)				
U.S. Government and Federal Agency Securities:				
Amounts maturing:				
Three months or less	\$ 34,515	\$ 34,505	\$ 4,997	\$ 4,995
After three months through one year	12,875	12,819	4,554	4,497
After one year through five years	3,497	3,484	16,370	16,018
	50,887	50,808	25,921	25,510
Mortgage-Backed Securities	1,150	1,158	1,648	1,634
Total	<u>\$ 52,037</u>	<u>\$ 51,966</u>	<u>\$ 27,569</u>	<u>\$ 27,144</u>

The increase in available-for-sale securities was due to a \$30.0 million purchase of U.S. Treasury securities offset by a \$5.0 million maturity during the period.

**Loans.** The composition of gross loans receivable at September 30, 2019 and at December 31, 2018 and the percentage (%) of each classification to total loans are summarized as follows:

	September 30, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Mortgage loans:				
1-4 Family residential				
Investor-Owned	\$ 309,065	32.2%	\$ 303,197	32.6%
Owner-Occupied	90,843	9.5%	92,788	10.0%
Multifamily residential	244,644	25.5%	232,509	25.0%
Nonresidential properties	195,952	20.4%	196,917	21.2%
Construction and land	106,124	11.1%	87,572	9.4%
Nonmortgage loans:				
Business loans	11,040	1.2%	15,710	1.7%
Consumer loans	1,252	0.1%	1,068	0.1%
Total	<u>\$ 958,920</u>	<u>100.0%</u>	<u>\$ 929,761</u>	<u>100.0%</u>

The composition of the loan portfolio remained essentially the same at September 30, 2019 when compared to December 31, 2018.

Commercial real estate loans, as defined by applicable banking regulations, include multifamily residential, nonresidential properties, and construction and land mortgage loans. At September 30, 2019, approximately 8.1% of the outstanding principal balance of the Bank's commercial real estate mortgage loans was secured by owner-occupied commercial real estate, compared to 10.1% at December 31, 2018. Owner-occupied commercial real estate is similar in many ways to commercial and industrial lending in that these loans are generally made to businesses predominantly on the basis of the cash flows of the business rather than on valuation of the real estate.

Banking regulations have established guidelines relating to the amount of construction and land mortgage loans and investor owned commercial real estate mortgage loans of 100% and 300% of total risk-based capital, respectively. Should a bank's ratios be in excess of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by bank management. The Bank's policy is to operate within the 100% guideline for construction and land mortgage loans and up to 400% for investor owned commercial real estate mortgage loans. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by the Bank's total risk-based capital. At September 30, 2019 and December 31, 2018, the Bank's construction and land mortgage loans as a percentage of total risk-based capital was 68.8% and 58.6%, respectively. Investor owned commercial real estate mortgage loans as a percentage of total risk-based capital was 327.6% and 313.1% as of September 30, 2019 and December 31, 2018, respectively. At September 30, 2019, the Bank was within the 100% guideline for construction and land mortgage loans established by banking regulations, but exceeded the 300% guideline for investor owned commercial real estate mortgage loans. However, the Bank was within its 400% policy limit established by the Bank's internal loan policy. Management believes that it has established the appropriate level of controls to monitor the Bank's lending in these areas.

**Deposits.** The composition of deposits at September 30, 2019 and December 31, 2018 and changes in dollars and percentages are summarized as follows:

	September 30,	December 31,	Increase (Decrease)	
	2019	2018	Dollars	Percent
	(Dollars in thousands)			
Demand	\$ 104,181	\$ 115,923	\$ (11,742)	(10.1%)
Interest-bearing deposits:				
NOW/IOLA accounts	28,600	30,783	(2,183)	(7.1%)
Money market accounts	140,999	116,175	24,824	21.4%
Savings accounts	115,402	122,791	(7,389)	(6.0%)
<b>Total savings, NOW and money market</b>	<b>285,001</b>	<b>269,749</b>	<b>15,252</b>	<b>5.7%</b>
Certificates of deposit of \$250K or more	145,068	90,195	54,873	60.8%
Certificates of deposit less than \$250K	223,595	333,891	(110,296)	(33.0%)
<b>Total certificates of deposit</b>	<b>368,663</b>	<b>424,086</b>	<b>(55,423)</b>	<b>(13.1%)</b>
Total interest-bearing deposits	653,664	693,835	(40,171)	(5.8%)
<b>Total deposits</b>	<b>\$ 757,845</b>	<b>\$ 809,758</b>	<b>\$ (51,913)</b>	<b>(6.4%)</b>

Brokered certificates of deposit in the amount of \$58.6 million, or 15.9% of total certificates of deposit, are included in certificates of deposit less than \$250,000.

Listing service deposits in the amount of \$22.5 million, or 6.1% of total certificates of deposit, are included in certificates of deposit less than \$250,000.

Reciprocal deposits in the amount of \$26.3 million represent 18.6% of total money market accounts. The reciprocal deposits consist of deposits received from a bank network in connection with deposits of customers in other banks in excess of the FDIC coverage limit that the Bank placed through a third party referred to as the Promontory Network.

When wholesale funding is necessary to complement the Bank's core deposit base, management determines which source is best suited to address both liquidity risk and interest rate risk management objectives. The Bank's Interest Rate Risk Policy imposes limitations on overall wholesale funding and noncore funding reliance. The overall reliance on wholesale funding and noncore funding were within those policy limitations as of September 30, 2019 and as of December 31, 2018. The Management Asset/Liability Committee generally meets on a weekly basis to review needs, if any, and to ascertain whether the Bank is operating within the approved limitations.

**Borrowings.** The Bank had outstanding borrowings at September 30, 2019 and December 31, 2018 of \$169.4 million and \$69.4 million, respectively. These borrowings are in the form of advances from the FHLBNY and borrowings from other correspondent banking relationships. The net increase in borrowings was due to net new FHLBNY advances of \$125.0 million for a term of three years, at an average rate of 2.0%, offset by the repayment of \$25.0 million in short-term advances from a correspondent bank.

**Stockholders' Equity.** Total stockholders' equity decreased \$8.6 million, or 5.1%, to \$160.6 million at September 30, 2019 from \$169.2 million at December 31, 2018. The decrease was primarily due to the repurchase of 886,325 shares of the Company's common stock in the amount of \$12.7 million. The repurchase program was approved by the Board of Directors on March 25, 2019. The

repurchase program expired on September 24, 2019. Under the repurchase program, the Company was permitted to repurchase up to 923,151 shares of its common stock, or approximately 5% of the then current outstanding common shares. The 886,325 repurchased shares of the Company's common stock will be primarily used to fund the prior grants of restricted stock units and stock options made under the Company's 2018 Long-Term Incentive Plan. These shares are currently reflected as treasury stock, at cost, as a contra-equity account in the equity section of the consolidated statements of financial condition.

The decrease in stockholders' equity was primarily offset by an increase of \$2.3 million in net income from operations combined with an increase of \$1.2 million in additional paid-in-capital as a result of share-based and ESOP compensation.

## Results of Operations

The discussion of the Company's results of operations for the three and nine months ended September 30, 2019 and 2018 are presented below. The results of operations for interim periods may not be indicative of future results.

### Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

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

	For the Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Dollars	Percent
	(Dollars in thousands, except per share data)			
Interest and dividend income	\$ 12,953	\$ 11,737	\$ 1,216	10.4%
Interest expense	3,188	2,490	698	28.0%
<b>Net interest income</b>	<b>9,765</b>	<b>9,247</b>	<b>518</b>	<b>5.6%</b>
Provision for loan losses	14	602	(588)	(97.7%)
<b>Net interest income after provision for loan losses</b>	<b>9,751</b>	<b>8,645</b>	<b>1,106</b>	<b>12.8%</b>
Noninterest income	579	714	(135)	(18.9%)
Noninterest expense	9,334	8,769	565	6.4%
<b>Income before income taxes</b>	<b>996</b>	<b>590</b>	<b>406</b>	<b>68.8%</b>
Provision for income taxes	287	188	99	52.7%
<b>Net income</b>	<b>\$ 709</b>	<b>\$ 402</b>	<b>\$ 307</b>	<b>76.4%</b>
Earnings per share for the period				
Basic	\$ 0.04	\$ 0.02	\$ 0.02	100.0%
Diluted	\$ 0.04	\$ 0.02	\$ 0.02	100.0%

**General.** Consolidated net income increased \$307,000, or 76.4%, to \$709,000 for the three months ended September 30, 2019, compared to \$402,000 for the three months ended September 30, 2018. Diluted earnings per share for the three months ended September 30, 2019 and September 30, 2018 was \$0.04 and \$0.02, respectively. The increase was primarily attributed to an increase of \$1.1 million in net interest income after provision for loan losses offset by an increase in non-interest expense of \$565,000, a decrease of \$135,000 in non-interest income and an increase \$99,000 in provision for income taxes.

**Interest and Dividend Income.** Interest and dividend income increased \$1.2 million, or 10.4%, to \$13.0 million for the three months ended September 30, 2019 from \$11.7 million for the same period last year. The increase was due primarily to a \$1.2 million, or 10.3%, increase in interest on loans, which is the Bank's primary source of interest income. Average balance of loans increased \$67.9 million, or 7.6%, to \$958.0 million for the three months ended September 30, 2019 from \$890.1 million for the three months ended September 30, 2018. The increase in average loan balances was primarily driven by increases of \$24.7 million in multifamily residential, \$20.8 million in construction and land and \$13.3 million in 1-4 family investor owned residential mortgage loan portfolios. The average yield on loans increased 12 basis points to 5.24% for the three months ended September 30, 2019 from 5.12% for the same period last year, mainly due to the increase in construction and land loans.

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

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
1-4 Family residential	\$ 5,172	\$ 4,944	\$ 228	4.6%
Multifamily residential	3,068	2,776	292	10.5%
Nonresidential properties	2,445	2,250	195	8.7%
Construction and land	1,771	1,319	452	34.3%
Business loans	184	176	8	4.5%
Consumer loans	23	18	5	27.8%
Total interest income on loans receivable	<u>\$ 12,663</u>	<u>\$ 11,483</u>	<u>\$ 1,180</u>	10.3%

Interest and dividend income on deposits due from banks, available-for-sale securities and FHLB NY stock increased \$36,000, or 14.2%, to \$290,000 for the three months ended September 30, 2019 from \$254,000 for the same period last year. The average balance of deposits due from banks, available-for-sale securities and FHLB NY stock decreased \$8.2 million, or 13.5%, to \$52.9 million for the three months ended September 30, 2019 from \$61.1 million for the three months ended September 30, 2018. The average rate earned on deposits due from banks, available-for-sale securities and FHLB NY stock increased 53 basis points to 2.18% for the three months ended September 30, 2019 from 1.65% for the same period last year.

The following table presents interest and dividend income on deposits due from banks, available-for-sales securities and FHLB NY stock for the periods indicated:

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Interest on deposits due from banks	\$ 117	\$ 141	\$ (24)	(17.0%)
Interest on available-for-sale securities	81	89	(8)	(9.0%)
Dividend on FHLB NY stock	92	24	68	283.3%
Total interest and dividend	<u>\$ 290</u>	<u>\$ 254</u>	<u>\$ 36</u>	14.2%

**Interest Expense.** Interest expense increased \$698,000, or 28.0%, to \$3.2 million for the three months ended September 30, 2019 from \$2.5 million for the same period last year. Interest expense on money market accounts increased \$486,000 to \$685,000 for the three months ended September 30, 2019 from \$199,000 for the same period in 2018. The average balance of money market accounts increased \$80.0 million to \$144.7 million for the three months ended September 30, 2019 from \$64.6 million for the same period last year, while the average rate paid on money market accounts increased 66 basis points to 1.88% for the three months ended September 30, 2019 from 1.22% for the three months ended September 30, 2018.

Interest expense on certificates of deposit remained essentially level at \$1.9 million for the three months ended September 30, 2019 and 2018. The average balance on certificates of deposit decreased \$55.2 million, or 12.7%, to \$379.9 million for the three months ended September 30, 2019 from \$435.2 million for the same period last year, and the average rate the Bank paid on certificates of deposit increased 21 basis points to 1.98% for the three months ended September 30, 2019 from 1.77% for the same period in 2018.

Interest expense on borrowings increased \$257,000, or 93.1%, to \$533,000 for the three months ended September 30, 2019 from \$276,000 for the three months ended September 30, 2018. The average balance on borrowings increased \$47.3 million, or 109.9%, to \$90.4 million for the three months ended September 30, 2019 from \$43.1 million for the same period last year, and the average rate the Bank paid on borrowings decreased 20 basis points to 2.34% for the three months ended September 30, 2019 from 2.54% for the same period in 2018.

Increased funding costs were primarily driven by management's efforts to retain high balance customers in higher yielding liquid deposits and higher market interest rates being offered by the Bank's competitors, combined with a resulting shift towards alternative funding during the three months ended September 30, 2019.

The following table presents interest expense for the periods indicated:

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Certificates of deposit	\$ 1,896	\$ 1,942	\$ (46)	(2.4%)
Money market	685	199	486	244.2%
Savings	38	47	(9)	(19.1%)
NOW/IOLA	35	25	10	40.0%
Advance payments by borrowers	1	1	—	0.0%
Borrowings	533	276	257	93.1%
Total interest expense	<u>\$ 3,188</u>	<u>\$ 2,490</u>	<u>\$ 698</u>	<u>28.0%</u>

**Net Interest Income.** Net interest income increased \$518,000, or 5.6%, to \$9.8 million for the three months ended September 30, 2019 from \$9.2 million for the three months ended September 30, 2018, primarily as a result of organic loan growth offset by higher average cost of funds on interest bearing liabilities. Average net interest-earning assets decreased by \$5.6 million, or 2.3%, to \$241.4 million for the three months ended September 30, 2019 from \$247.1 million for the same period in 2018, due primarily to increases of \$80.0 million in average money market accounts and \$47.3 million in borrowings offset by a decrease of \$55.2 million in certificates of deposit and an increase of \$67.9 million in loans. The net interest rate spread decreased by 5 basis points to 3.44% for the three months ended September 30, 2019 from 3.49% for the three months ended September 30, 2018, and the net interest margin was 3.83% and 3.86% for the three months ended September 30, 2019 and 2018, respectively. The compression on the net interest margin was primarily caused by organic loan growth being offset by higher market interest rates due to increased competition for deposits and increased funding costs attributed to increased alternative funding.

Management continues to deploy various asset and liability management strategies to manage the Bank's risk of interest rate fluctuations. Although the rise in interest rates over the last two years, prior to the decrease in interest rates over the last four months, has slightly lifted the yields on earning assets, pricing for creditworthy borrowers and meaningful depositors is very competitive in today's markets and this competition has adversely impacted, and may continue to adversely impact the Bank's margins. It is anticipated that this challenging competitive environment will continue during the remainder of 2019 and into 2020 in spite of recently declining rates. The Federal Reserve Board reduced the federal funds interest rate by 25 basis points on each of July 31, September 18, and October 30, 2019. In the event that short-term interest rates were to be cut further in 2019 or beyond, the Bank's net interest margin would likely be negatively impacted as management's ability to lower funding costs on interest-bearing deposits would more than likely lag the pace with which these cuts would impact the Bank's yields on its earning assets. Although it could be anticipated that the Bank's net interest margin may continue to decrease for the remainder of 2019, net interest income should continue to increase in 2019 compared to 2018 primarily due to increased average earning asset volumes, primarily loans. Management will continue to seek to fund these increased loan volumes by growing its core deposits, but will utilize, as needed funding alternatives. To the extent that the dependency on funding alternatives remains elevated for the remainder of 2019, the Bank's net interest margin may be negatively impacted.

**Provision for Loan Losses.** The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's opinion, should be adequate to provide coverage for the inherent losses on outstanding loans.

In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See "Summary of Significant Accounting Policies" and "—Allowance for Loan Losses" for additional information.

After an evaluation of these factors, the Bank established a provision for loan losses for the three months ended September 30, 2019 of \$14,000 as compared to \$602,000 for the three months ended September 30, 2018.

To the best of management's knowledge, the Bank recorded all loan losses that are both probable and reasonably expected. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to the Bank's loan portfolio, could result in material increases in the Bank's provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews the Bank's allowance for loan losses and as a result of such reviews, the Bank may determine to adjust the allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is management's responsibility and any increase or decrease in the allowance is the responsibility of management. The Bank has selected the CECL model and has begun running scenarios. The

extent of the change is indeterminable at this time as it will be dependent upon the portfolio composition and credit quality at the adoption date (see Note 1).

**Non-interest Income.** Total non-interest income decreased \$135,000, or 18.9% to \$579,000 for the three months ended September 30, 2019 from \$714,000 from the same period in the prior year. The decrease in non-interest income for the three months ended September 30, 2019 compared to the same period in 2018 was primarily due to decreases of \$250,000 in brokerage commissions and \$26,000 in other non-interest income, offset by increases \$85,000 in late and prepayment charges related to mortgage loans and \$56,000 in service charges and fees.

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Service charges and fees	\$ 247	\$ 191	\$ 56	29.3%
Brokerage commissions	36	286	(250)	(87.4%)
Late and prepayment charges	150	65	85	130.8%
Other	146	172	(26)	(15.1%)
Total noninterest income	<u>\$ 579</u>	<u>\$ 714</u>	<u>\$ (135)</u>	<u>(18.9%)</u>

**Non-interest Expense.** Total non-interest expense increased \$565,000, or 6.4%, to \$9.3 million for the three months ended September 30, 2019, compared to \$8.8 million for the same period in 2018. For the three months ended September 30, 2019 compared to the same period in 2018, occupancy and equipment expense increased \$358,000 due to the rebranding and branch network renovation initiatives, compensation and benefits expense increased \$120,000 as a result of expenses related to restricted stock units and stock options, other operating expenses increased \$90,000 as a result increase in recruiting fees of \$107,000 offset by a credit from Federal Deposit Insurance Corporation in the amount of \$205,000 related to the Bank's deposit insurance assessment, insurance and surety bond premium expense increased \$59,000 and data processing expenses increased \$56,000 as a result of system enhancements and implementation charges related to software upgrades and additional product offerings. The increase in noninterest expense was partially offset by decreases of \$82,000 for direct loan expense, \$27,000 for office supplies, telephone and postage, and \$22,000 for professional fees associated with public reporting requirements for the three months ended September 30, 2019 compared to the same period in 2018.

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	\$ 4,667	\$ 4,547	\$ 120	2.6%
Occupancy and equipment	1,943	1,585	358	22.6%
Data processing expenses	398	342	56	16.4%
Direct loan expenses	183	265	(82)	(30.9%)
Insurance and surety bond premiums	146	87	59	67.8%
Office supplies, telephone and postage	281	308	(27)	(8.8%)
Professional fees	956	978	(22)	(2.2%)
Marketing and promotional expenses	46	40	6	15.0%
Directors fees	69	69	—	0.0%
Regulatory dues	70	63	7	11.1%
Other operating expenses	575	485	90	18.6%
Total noninterest expense	<u>\$ 9,334</u>	<u>\$ 8,769</u>	<u>\$ 565</u>	<u>6.4%</u>

**Income Tax Provision.** The Company incurred income tax expenses of \$287,000 and \$188,000 for the three months ended September 30, 2019 and 2018, respectively, resulting in effective tax rates of 28.8% and 31.9%, respectively.

## Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	For the Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Dollars	Percent
	(Dollars in thousands, except per share data)			
Interest and dividend income	\$ 37,749	\$ 33,831	\$ 3,918	11.6%
Interest expense	9,178	6,772	2,406	35.5%
<b>Net interest income</b>	<b>28,571</b>	<b>27,059</b>	<b>1,512</b>	<b>5.6%</b>
Provision for loan losses	163	1,034	(871)	(84.2%)
<b>Net interest income after provision for loan losses</b>	<b>28,408</b>	<b>26,025</b>	<b>2,383</b>	<b>9.2%</b>
Noninterest income	2,018	2,122	(104)	(4.9%)
Noninterest expense	27,132	25,483	1,649	6.5%
<b>Income before income taxes</b>	<b>3,294</b>	<b>2,664</b>	<b>630</b>	<b>23.6%</b>
Provision for income taxes	967	623	344	55.2%
<b>Net income</b>	<b>\$ 2,327</b>	<b>\$ 2,041</b>	<b>\$ 286</b>	<b>14.0%</b>
Earnings per share for the period				
Basic	\$ 0.13	\$ 0.11	\$ 0.02	18.2%
Diluted	\$ 0.13	\$ 0.11	\$ 0.02	18.2%

**General.** Consolidated net income for the nine months ended September 30, 2019 was \$2.3 million and for the nine months ended September 30, 2018 was \$2.0 million. Diluted earnings per share for the nine months ended September 30, 2019 and September 30, 2018 was \$0.13 and \$0.11, respectively. Although interest and dividend income increased by \$3.9 million, it was offset by increases in interest expense of \$2.4 million and noninterest expense of \$1.6 million.

**Interest and Dividend Income.** Interest and dividend income increased \$3.9 million, or 11.6%, to \$37.7 million for the nine months ended September 30, 2019 from \$33.8 million for the same period last year. The increase was primarily due to an increase of \$3.9 million, or 11.8%, in interest on loans receivable, which is the Bank's primary source of interest income. Average loan balance increased \$90.7 million, or 10.7%, to \$941.0 million for the nine months ended September 30, 2019 from \$850.3 million for the nine months ended September 30, 2018. The increase in average loan balance was primarily driven by increases in the 1-4 family residential, construction and land and multifamily residential mortgage loan portfolios. The average yield on loans increased 5 basis point to 5.23% for the nine months ended September 30, 2019 from 5.18% for the same period last year.

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

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
1-4 Family residential	\$ 15,311	\$ 14,749	\$ 562	3.8%
Multifamily residential	8,978	7,851	1,127	14.4%
Nonresidential properties	7,189	6,084	1,105	18.2%
Construction and land	4,592	3,594	998	27.8%
Business loans	682	593	89	15.0%
Consumer loans	66	51	15	29.4%
<b>Total interest income on loans receivable</b>	<b>\$ 36,818</b>	<b>\$ 32,922</b>	<b>\$ 3,896</b>	<b>11.8%</b>

Interest and dividend income on deposits due from banks, available-for-sale securities and FHLB NY stock increased \$22,000, or 2.4%, to \$931,000 for the nine months ended September 30, 2019 from \$909,000 for the same period last year. The average balance of deposits due from banks, available-for-sale securities and FHLB NY stock decreased \$12.2 million, or 16.8%, to \$60.3 million for the nine months ended September 30, 2019 from \$72.5 million for the nine months ended September 30, 2018. The average rate earned on deposits due from banks, available-for-sale securities and FHLB NY stock increased 38 basis points to 2.06% for the nine months ended September 30, 2019 from 1.68% for the same period last year.

The following table presents interest and dividend income on deposits due from banks, available-for-sale securities and FHLB NY stock for the periods indicated:

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Interest on deposits due from banks	\$ 498	\$ 510	\$ (12)	(2.4%)
Interest on available-for-sale securities	244	299	(55)	(18.4%)
Dividend on FHLB NY stock	189	100	89	89.0%
Total interest and dividend	<u>\$ 931</u>	<u>\$ 909</u>	<u>\$ 22</u>	2.4%

**Interest Expense.** Interest expense increased \$2.4 million, or 35.5%, to \$9.2 million for the nine months ended September 30, 2019 from \$6.8 million for the same period last year. Interest expense on money market accounts increased \$1.6 million to \$2.0 million for the nine months ended September 30, 2019 from \$451,000 for the same period in 2018. The average balance of money market accounts increased \$67.6 million to \$124.3 million for the nine months ended September 30, 2019 from \$56.7 million for the same period last year, while the average rate paid on money market accounts increased 110 basis points to 2.16% for the nine months ended September 30, 2019 from 1.06% for the nine months ended September 30, 2018.

Interest expense on certificates of deposit increased \$217,000, or 3.9%, to \$5.8 million for nine months ended September 30, 2019 from \$5.5 million for the nine months ended September 30, 2018. The average balance of certificates of deposit decreased \$29.9 million, or 6.8%, to \$408.2 million for the nine months ended September 30, 2019 from \$438.1 million for the same period last year, and the average rate the Bank paid on certificates of deposit increased 20 basis points to 1.89% for the nine months ended September 30, 2019 from 1.69% for the same period in 2018.

Interest expense on borrowings increased \$633,000, or 109.5%, to \$1.2 million for the nine months ended September 30, 2019 from \$578,000 for the nine months ended September 30, 2018. The average balance of borrowings increased \$34.9 million, or 116.3%, to \$64.9 million for the nine months ended September 30, 2019 from \$30.0 million for the same period last year, and the average rate the Bank paid on borrowings decreased 8 basis points to 2.49% for the nine months ended September 30, 2019 from 2.57% for the same period in 2018.

Increased funding costs were primarily driven by management's efforts to retain high balance customers in higher yielding liquid deposits and higher market interest rates being offered by the Bank's competitors, resulting in a shift towards noncore funding during the nine months ended September 30, 2019.

The following table presents interest expense for the periods indicated:

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Certificates of deposit	\$ 5,756	\$ 5,539	\$ 217	3.9%
Money market	2,004	451	1,553	344.3%
Savings	118	126	(8)	(6.3%)
NOW/IOLA	86	75	11	14.7%
Advance payments by borrowers	3	3	—	0.0%
Borrowings	1,211	578	633	109.5%
Total interest expense	<u>\$ 9,178</u>	<u>\$ 6,772</u>	<u>\$ 2,406</u>	35.5%

**Net Interest Income.** Net interest income increased \$1.5 million, or 5.6%, to \$28.6 million for the nine months ended September 30, 2019 from \$27.1 million for the nine months ended September 30, 2018, primarily as a result of organic loan growth offset by a higher average cost of funds on interest bearing liabilities. Average net interest-earning assets increased by \$10.3 million, or 4.4%, to \$247.4 million for the nine months ended September 30, 2019 from \$237.1 million for the same period in 2018, due



primarily to organic loan growth. Net interest rate spread decreased by 17 basis points to 3.41% for the nine months ended September 30, 2019 from 3.58% for the nine months ended September 30, 2018, and the net interest margin decreased to 3.81% from 3.92% for the nine months ended September 30, 2019 and 2018, respectively.

**Provision for Loan Losses.** The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's opinion, should be adequate to provide coverage for the inherent losses on outstanding loans.

In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See "Summary of Significant Accounting Policies" and "—Allowance for Loan Losses" for additional information.

After an evaluation of these factors, the Bank established a provision for loan losses for the nine months ended September 30, 2019 of \$163,000 as compared to \$1.0 million for the nine months ended September 30, 2018. The allowance for loan losses was \$12.2 million at September 30, 2019 as compared to \$12.7 million at December 31, 2018. The allowance for loan losses to total loans was 1.27% at September 30, 2019 compared to 1.36% at December 31, 2018, and the allowance for loan losses to non-performing loans decreased to 117.72% at September 30, 2019 from 186.77% at December 31, 2018.

To the best of its knowledge, the Bank has recorded all loan losses that are both probable and reasonable to estimate at September 30, 2019. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to the Bank's loan portfolio, could result in material increases in its provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews the Bank's allowance for loan losses and as a result of such reviews, the Bank may determine to adjust its allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is the Bank's responsibility and any increase or decrease in the allowance is the responsibility of management.

**Non-interest Income.** Total non-interest income decreased \$104,000, or 4.9% to \$2.0 million for the nine months ended September 30, 2019 compared to \$2.1 million for the nine months ended September 30, 2018. The decrease in non-interest income for the nine months ended September 30, 2019 compared to the same period in 2018 was primarily due to decreases of \$255,000 in brokerage commissions and \$151,000 in other noninterest income. The decrease was offset by increases of \$224,000 in late and prepayment charges related to mortgage loans and \$78,000 in service charges and fees.

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Service charges and fees	\$ 705	\$ 627	\$ 78	12.4%
Brokerage commissions	169	424	(255)	(60.1%)
Late and prepayment charges	551	327	224	68.5%
Other	593	744	(151)	(20.3%)
Total noninterest income	<u>\$ 2,018</u>	<u>\$ 2,122</u>	<u>\$ (104)</u>	<u>(4.9%)</u>

**Non-interest Expense.** Total non-interest expense increased \$1.6 million, or 6.5%, to \$27.1 million for the nine months ended September 30, 2019, compared to \$25.5 million for the same period in 2018. For the nine months ended September 30, 2019 compared to the same period in 2018, occupancy and equipment increased \$792,000, due to the rebranding and branch network renovation initiatives. Compensation and benefits expense increased by \$691,000 mainly due to \$999,000 of share-based compensation due to restricted stock units and stock options granted to senior management and directors and \$294,000 increase in salaries and other related benefits due new hires. These increases were offset by a \$610,000 increase in loan origination fees netted against personnel salaries associated with lending and origination activities. Other increases were \$132,000 for data processing, \$69,000 for professional fees, which primarily include legal and accounting expenses, \$84,000 of other operating expense as a result of an increase in recruiting fees offset by a credit from Federal Deposit Insurance Corporation in the amount of \$205,000 related to the Bank's deposit insurance assessment and loss on loans sold. The increase in noninterest expense was partially offset by decreases of \$91,000 for office supplies, telephone and postage, \$51,000 of direct loan expenses and \$28,000 of marketing and promotional expenses for the nine months ended September 30, 2019 compared to the same period in 2018.

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	\$ 14,157	\$ 13,466	\$ 691	5.1%
Occupancy and equipment	5,586	4,794	792	16.5%
Data processing	1,182	1,050	132	12.6%
Direct loan expense	521	572	(51)	(8.9%)
Insurance and surety bond premiums	312	275	37	13.5%
Office supplies, telephone and postage	869	960	(91)	(9.5%)
Professional fees	2,199	2,130	69	3.2%
Marketing and promotional expenses	119	147	(28)	(19.0%)
Directors fees	225	207	18	8.7%
Regulatory dues	173	177	(4)	(2.3%)
Other operating expenses	1,789	1,705	84	4.9%
Total noninterest expense	<u>\$ 27,132</u>	<u>\$ 25,483</u>	<u>\$ 1,649</u>	6.5%

**Income Tax Provision.** The Company incurred income tax expenses of \$967,000 and \$623,000 for the nine months ended September 30, 2019 and 2018, respectively, resulting in effective tax rates of 29.4% and 23.4%, respectively. At September 30, 2019, net deferred tax assets amounted to \$3.9 million compared to \$3.8 million at December 31, 2018.

## Average Balance Sheets

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

	For the Three Months Ended September 30,					
	2019			2018		
	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)
	(Dollars in thousands)					
<b>Interest-earning assets:</b>						
Loans	\$ 957,987	\$ 12,663	5.24%	\$ 890,063	\$ 11,483	5.12%
Available-for-sale securities	22,415	81	1.43%	25,330	89	1.39%
Other (2)	30,460	209	2.72%	35,792	165	1.83%
Total interest-earning assets	<u>1,010,862</u>	<u>12,953</u>	<u>5.08%</u>	<u>951,185</u>	<u>11,737</u>	<u>4.90%</u>
Non-interest-earning assets	35,840			32,634		
Total assets	<u>\$ 1,046,702</u>			<u>\$ 983,819</u>		
<b>Interest-bearing liabilities:</b>						
NOW/IOLA	\$ 28,183	\$ 35	0.49%	\$ 27,523	\$ 25	0.36%
Money market	144,666	685	1.88%	64,625	199	1.22%
Savings	118,308	38	0.13%	126,329	47	0.15%
Certificates of deposit	379,915	1,896	1.98%	435,159	1,942	1.77%
Total deposits	<u>671,072</u>	<u>2,654</u>	<u>1.57%</u>	<u>653,636</u>	<u>2,213</u>	<u>1.34%</u>
Advance payments by borrowers	7,991	1	0.05%	7,409	1	0.05%
Borrowings	90,361	533	2.34%	43,057	276	2.54%
Total interest-bearing liabilities	<u>769,424</u>	<u>3,188</u>	<u>1.64%</u>	<u>704,102</u>	<u>2,490</u>	<u>1.40%</u>
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing demand	109,491	—		105,376	—	
Other non-interest-bearing liabilities	3,402	—		6,456	—	
Total non-interest-bearing liabilities	<u>112,893</u>	<u>—</u>		<u>111,832</u>	<u>—</u>	
Total liabilities	<u>882,317</u>	<u>3,188</u>		<u>815,934</u>	<u>2,490</u>	
Total equity	164,385			167,885		
Total liabilities and total equity	<u>\$ 1,046,702</u>		<u>1.64%</u>	<u>\$ 983,819</u>		<u>1.40%</u>
Net interest income		<u>\$ 9,765</u>			<u>\$ 9,247</u>	
Net interest rate spread (3)			3.44%			3.49%
Net interest-earning assets (4)	<u>\$ 241,438</u>			<u>\$ 247,083</u>		
Net interest margin (5)			3.83%			3.86%
Average interest-earning assets to interest-bearing liabilities			131.38%			135.09%

(1) Annualized where appropriate.

(2) Includes FHLB NY demand account and FHLB NY stock dividends.

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

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

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

**For the Nine Months Ended September 30,**

	2019			2018		
	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans	\$ 940,971	\$ 36,818	5.23%	\$ 850,316	\$ 32,922	5.18%
Available-for-sale securities	22,772	244	1.43%	27,417	299	1.46%
Other (2)	37,551	687	2.45%	45,113	610	1.81%
Total interest-earning assets	1,001,294	37,749	5.04%	922,846	33,831	4.90%
Non-interest-earning assets	35,142			33,815		
Total assets	<u>\$ 1,036,436</u>			<u>\$ 956,661</u>		
<b>Interest-bearing liabilities:</b>						
NOW/IOLA	\$ 27,298	\$ 86	0.42%	\$ 27,955	\$ 75	0.36%
Money market	124,263	2,004	2.16%	56,694	451	1.06%
Savings	120,748	118	0.13%	125,643	126	0.13%
Certificates of deposit	408,241	5,756	1.89%	438,121	5,539	1.69%
Total deposits	680,550	7,964	1.56%	648,413	6,191	1.28%
Advance payments by borrowers	8,423	3	0.05%	7,345	3	0.05%
Borrowings	64,947	1,211	2.49%	30,030	578	2.57%
Total interest-bearing liabilities	753,920	9,178	1.63%	685,788	6,772	1.32%
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing demand	110,730	—		98,247	—	
Other non-interest-bearing liabilities	4,087	—		5,555	—	
Total non-interest-bearing liabilities	114,817	—		103,802	—	
Total liabilities	868,737	9,178		789,590	6,772	
Total equity	167,699			167,071		
Total liabilities and total equity	<u>\$ 1,036,436</u>		1.63%	<u>\$ 956,661</u>		1.32%
Net interest income		<u>\$ 28,571</u>			<u>\$ 27,059</u>	
Net interest rate spread(3)			3.41%			3.58%
Net interest-earning assets (4)	<u>\$ 247,374</u>			<u>\$ 237,058</u>		
Net interest margin (5)			3.81%			3.92%
Average interest-earning assets to interest-bearing liabilities			132.81%			134.57%

(1) Annualized where appropriate.

(2) Includes FHLB NY demand account and FHLB NY stock dividends.

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

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

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

## Rate/Volume Analysis

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

	For the Three Months Ended September 30, 2019 vs. 2018			For the Nine Months Ended September 30, 2019 vs. 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)			(In thousands)		
<b>Interest-earning assets:</b>						
Loans	\$ (25)	\$ 1,205	\$ 1,180	\$ 3,380	\$ 516	\$ 3,896
Available-for-sale securities	(17)	9	(8)	(49)	(6)	(55)
Other	(228)	272	44	(163)	240	77
Total interest-earning assets	(270)	1,486	1,216	3,168	750	3,918
<b>Interest-bearing liabilities:</b>						
NOW/IOLA	(27)	37	10	(6)	17	11
Money market	(464)	950	486	195	1,358	1,553
Savings	15	(24)	(9)	(4)	(4)	(8)
Certificates of deposit	(842)	796	(46)	(578)	795	217
Total deposits	(1,318)	1,759	441	(393)	2,166	1,773
Advance payments by borrowers	—	—	—	1	(1)	—
Borrowings	440	(183)	257	685	(52)	633
Total interest-bearing liabilities	(878)	1,576	698	293	2,113	2,406
Change in net interest income	\$ 608	\$ (90)	\$ 518	\$ 2,875	\$ (1,363)	\$ 1,512

## Management of Market Risk

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

The Bank does not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

**Net Interest Income Simulation Models.** Management utilizes a respected, sophisticated third party designed asset liability modeling software that measures the Bank's earnings through simulation modeling. Earning assets, interest-bearing liabilities and off-balance sheet financial instruments are combined with forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations over that same 12-month period. To limit interest rate risk, the Bank has policy guidelines for earnings risk which seek to limit the variance of net interest income in both gradual and instantaneous changes to interest rates. As of September 30, 2019, in the event of an instantaneous upward and downward change in rates from management's flat interest rate forecast over the next twelve months, assuming a static balance sheet, the following estimated changes are calculated:

Rate Shift (1)	Net Interest Income		Year 1 Change from Level
	Year 1 Forecast		
	(Dollars in thousands)		
+400	\$	34,495	(9.96%)
+300		35,940	(6.19%)
+200		37,081	(3.21%)
+100		37,893	(1.09%)
Level		38,312	0.00%
-100		38,402	0.23%

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

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

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

At September 30, 2019, the earnings simulation model indicated that the Bank was in compliance with the Board of Directors approved Interest Rate Risk Policy.

**Economic Value of Equity Model.** While earnings simulation modeling attempts to determine the impact of a changing rate environment to net interest income, the Economic Value of Equity Model (“EVE”) measures estimated changes to the economic values of assets, liabilities and off-balance sheet items as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case EVE. Rates are then shocked as prescribed by the Interest Rate Risk Policy to measure the sensitivity in EVE values for each of those shocked rate scenarios versus the base case. The Interest Rate Risk Policy sets limits for those sensitivities. At September 30, 2019, the EVE modeling calculated the following estimated changes in EVE due to instantaneous upward and downward changes in rates:

Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
		Amount	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
+400	\$ 147,281	\$ (31,005)	(17.39%)	14.03%	(174)
+300	156,497	(21,789)	(12.22%)	14.63%	(114)
+200	164,965	(13,321)	(7.47%)	15.13%	(64)
+100	172,677	(5,609)	(3.15%)	15.55%	(22)
-----	178,286	—	0.00%	15.77%	—
-100	181,964	3,678	2.06%	15.82%	5

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

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

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

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

Although an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, management believes that a gradual shift in interest rates would have a more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account

factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could alter the adverse impact of changes in interest rates.

At September 30, 2019, the EVE model indicated that the Bank was in compliance with the Board of Directors approved Interest Rate Risk Policy.

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

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

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

The Asset/Liability Committee may determine that the Bank should over time become more or less asset or liability sensitive depending on the underlying balance sheet circumstances and its conclusions as to anticipated interest rate fluctuations in future periods. At present, the Asset/Liability Committee has determined that its "most likely" rate scenario considers no further decreases in short-term interest rates in 2019. The Federal Reserve Board reduced the Federal Funds interest rate by 25 basis points on each of July 31, September 18, and October 30, 2019. The "most likely" rate forecast is based primarily on information the Bank acquires from a service which includes a consensus forecast of numerous interest rate benchmarks. Additional actions may be implemented that are designed to achieve the desired sensitivity position which could change from time to time.

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

The following table sets forth the Bank's interest-earning assets and the Bank's interest-bearing liabilities at September 30, 2019, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at September 30, 2019, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	September 30, 2019 Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
(Dollars in thousands)									
<b>Assets:</b>									
Interest-bearing deposits in banks	\$ 40,965	\$ 40,965	\$ 40,965	\$ 40,965	\$ 40,965	\$ 40,965	\$ 40,965	\$ 6,425	\$ 47,390
Available-for-sale securities	34,683	36,825	48,147	51,809	52,034	52,034	52,034	(68)	51,966
Net loans (includes LHFS)	85,823	136,607	252,101	438,743	903,691	950,786	950,786	(2,238)	948,548
FHLBNY stock	8,659	8,659	8,659	8,659	8,659	8,659	8,659	—	8,659
Other assets	—	—	—	—	—	—	—	43,425	43,425
Total	\$ 170,130	\$ 223,056	\$ 349,872	\$ 540,176	\$ 1,005,349	\$ 1,052,444	\$ 1,052,444	\$ 47,544	\$ 1,099,988
<b>Liabilities:</b>									
Non-maturity deposits	\$ 285,001	\$ 285,001	\$ 285,001	\$ 285,001	\$ 285,001	\$ 285,001	\$ 285,001	\$ 104,181	\$ 389,182
Certificates of deposit	46,356	95,559	183,478	295,730	368,663	368,663	368,663	—	368,663
Other liabilities	65,000	65,000	65,000	76,029	169,404	169,404	169,404	12,185	181,589
Total liabilities	396,357	445,560	533,479	656,760	823,068	823,068	823,068	116,366	939,434
Capital	—	—	—	—	—	—	—	160,554	160,554
Total liabilities and capital	\$ 396,357	\$ 445,560	\$ 533,479	\$ 656,760	\$ 823,068	\$ 823,068	\$ 823,068	\$ 276,920	\$ 1,099,988
Asset/liability gap	\$ (226,227)	\$ (222,504)	\$ (183,607)	\$ (116,584)	\$ 182,281	\$ 229,376	\$ 229,376		
Gap/assets ratio	42.92%	50.06%	65.58%	82.25%	122.15%	127.87%	127.87%		

The following table sets forth the Bank's interest-earning assets and the Bank's interest-bearing liabilities at December 31, 2018, which are anticipated to reprice or mature in each of the future time periods shown based upon certain assumptions. The amounts of assets and liabilities shown which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2018, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments. The loan amounts in the table reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and as a result of contractual rate adjustments on adjustable-rate loans.

	December 31, 2018 Time to Repricing								
	Zero to 90 Days	Zero to 180 Days	Zero Days to One Year	Zero Days to Two Years	Zero Days to Five Years	Five Years Plus	Total Earning Assets & Costing Liabilities	Non Earning Assets & Non Costing Liabilities	Total
(Dollars in thousands)									
<b>Assets:</b>									
Interest-bearing deposits in banks	\$ 24,553	\$ 24,553	\$ 24,553	\$ 24,553	\$ 24,553	\$ 24,553	\$ 24,553	\$ 45,225	\$ 69,778
Available-for-sale securities	5,121	5,997	10,675	26,397	26,698	27,568	27,568	(424)	27,144
Net loans (includes LHFS)	103,967	137,999	206,712	371,288	856,529	924,906	924,906	(6,397)	918,509
FHLBNY stock	—	—	—	—	2,915	2,915	2,915	—	2,915
Other assets	—	—	—	—	4	4	4	41,551	41,555
Total	\$ 133,641	\$ 168,549	\$ 241,940	\$ 422,238	\$ 910,699	\$ 979,946	\$ 979,946	\$ 79,955	\$ 1,059,901
<b>Liabilities:</b>									
Non-maturity deposits	\$ 269,749	\$ 269,749	\$ 269,749	\$ 269,749	\$ 269,749	\$ 269,749	\$ 269,749	\$ 115,923	\$ 385,672
Certificates of deposit	65,267	107,838	189,720	283,655	424,086	424,086	424,086	—	424,086
Other liabilities	25,000	25,000	25,000	33,029	69,404	69,404	69,404	11,567	80,971
Total liabilities	360,016	402,587	484,469	586,433	763,239	763,239	763,239	127,490	890,729
Capital	—	—	—	—	—	—	—	169,172	169,172
Total liabilities and capital	\$ 360,016	\$ 402,587	\$ 484,469	\$ 586,433	\$ 763,239	\$ 763,239	\$ 763,239	\$ 296,662	\$ 1,059,901
Asset/liability gap	\$ (226,375)	\$ (234,038)	\$ (242,529)	\$ (164,195)	\$ 147,460	\$ 216,707	\$ 216,707		
Gap/assets ratio	37.12%	41.87%	49.94%	72.00%	119.32%	128.39%	128.39%		



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

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

### **Liquidity and Capital Resources**

Liquidity describes the ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Bank's customers and to fund current and future planned expenditures. The primary sources of funds are deposits, principal and interest payments on loans and securities and proceeds from the sale of loans. The Bank also has access to borrow from the FHLBNY. At September 30, 2019 and December 31, 2018, the Bank had \$169.4 million and \$44.4 million, respectively, of term and overnight outstanding advances from the FHLBNY, and also had a guarantee from the FHLBNY through a standby letter of credit of \$3.5 million, and \$7.6 million, respectively. At September 30, 2019, there was eligible collateral of approximately \$297.1 million in mortgage loans available to secure advances from the FHLBNY. The Bank also has an unsecured line of credit of \$25.0 million with a correspondent bank, of which there was \$0 and \$25.0 million outstanding at September 30, 2019 and December 31, 2018, respectively. The Bank did not have any securities sold under repurchase agreements with brokers as of September 30, 2019 and December 31, 2018, respectively.

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

Net cash provided by operating activities was \$6.1 million and \$6.7 million for the nine months ended September 30, 2019 and 2018, respectively. Net cash (used in) investing activities, which consists primarily of disbursements for loan originations, offset by principal collections on loans, purchase of new securities, proceeds from maturing securities and pay downs on mortgage-backed securities, was \$(63.9) million and \$(96.3) million for the nine months ended September 30, 2019 and 2018, respectively. Net cash provided by financing activities, consisting of activities in deposit accounts and advances, was \$35.4 million and \$52.2 million for the nine months ended September 30, 2019 and 2018.

The Bank is committed to maintaining an adequate liquidity position. The liquidity position is monitored on a daily basis and it is anticipated that there will be sufficient funds to meet current funding commitments. Based on the deposit retention experience and current pricing strategy, it is anticipated that a significant portion of maturing time deposits will be retained.

At September 30, 2019 and December 31, 2018, all regulatory capital requirements were met, resulting in the Company and the Bank being categorized as well capitalized at September 30, 2019 and December 31, 2018. Management is not aware of any conditions or events that would change this categorization.

### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, the Bank routinely is a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent the Bank's future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans originated. At September 30, 2019 and December 31, 2018, the Bank had outstanding commitments to originate loans and extend credit of \$106.2 million and \$104.5 million, respectively. It is anticipated that the Bank will have sufficient funds available to meet its current lending commitments. Certificates of deposit that are scheduled to mature in less than one year from September 30, 2019 totaled \$183.9 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits is not retained, the Bank may utilize FHLBNY advances, unsecured

credit lines with correspondent banks, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

**Contractual Obligations.** In the ordinary course of the Bank's operations, the Bank enters into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

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

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

**Item 4. Controls and Procedures.**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2019. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended September 30, 2019, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings as a plaintiff or a defendant other than routine legal proceeding occurring in the ordinary course of business. At September 30, 2019, the Company was not involved in any legal proceedings the outcome of which management believes would be material to its financial condition or results of operations.

### Item 1A. Risk Factors.

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in the Company's Form 10-K under the heading "Risk Factors" filed with the SEC on March 29, 2019. The Company's evaluation of the risk factors applicable to it has not changed materially from those disclosed in the Form 10-K.

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

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended September 30, 2019:

#### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	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(3)
July 1, 2019 - July 31, 2019	116,185	\$ 14.28	593,163	329,988
August 1, 2019 - August 31, 2019	167,964	\$ 14.36	761,127	162,024
September 1, 2019 - September 30, 2019	125,198	\$ 14.32	886,325	—
<b>Total</b>	<b>409,347</b>	<b>\$ 14.33</b>	<b>886,325</b>	<b>—</b>

- (1) The Company repurchased 409,347 shares and 886,325 shares, respectively, of its common stock at an aggregate cost of \$5.9 million and \$12.7 million, respectively, in the three and nine months ended September 30, 2019.
- (2) This number is not inclusive of the brokerage commission fee of \$0.05 per share.
- (3) There were no shares yet to be purchased under the repurchase program at September 30, 2019, as the repurchase program expired on September 24, 2019.

The Company adopted a share repurchase program effective March 25, 2019 through September 24, 2019. Under the repurchase program, the Company could repurchase up to 923,151 shares of its common stock, or approximately 5% of the outstanding shares, which are to be used primarily to fund the grants of restricted stock units and stock options made under the Company's 2018 Long-Term Incentive Plan. Repurchased shares are held by the Company as treasury shares until used to fund the restricted stock units and option grants or as otherwise determine by management. A total of 886,325 shares were repurchased under the program before it expired on September 24, 2019. During the quarter ended September 30, 2019, the Company repurchased 409,347 shares of the Company's common stock.

### Item 3. Defaults Upon Senior Securities.

None

### Item 4. Mine Safety Disclosures.

None

### Item 5. Other Information.

None

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#"><u>Charter of PDL Community Bancorp (attached as Exhibit 3.1 to the Registrant's amendment No. 1 to the Form S-1 (File No. 333-217275) filed with the Commission on May 22, 2017).</u></a>
3.2	<a href="#"><u>Bylaws of PDL Community Bancorp (attached as Exhibit 3.2 to the Registrant's amendment No. 2 to the Form S-1 (File No. 333-217275) filed with the Commission on July 27, 2017).</u></a>
4.1	<a href="#"><u>Form of Common Stock Certificate of PDL Community Bancorp (attached as Exhibit 4.1 to the Registrant's amendment No. 2 to the Form S-1 (File No. 333-217275) filed with the Commission on July 27, 2017).</u></a>
10.1	<a href="#"><u>Ponce Bank Employee Stock Ownership Plan (attached as Exhibit 10.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.2	<a href="#"><u>Ponce Bank ESOP Equalization Plan (attached as Exhibit 10.2 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.3	<a href="#"><u>Ponce De Leon Federal Deferred Compensation Plan (attached as Exhibit 10.3 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.4	<a href="#"><u>Employment Agreement dated as of March 23, 2017, by and between Ponce de Leon Federal Bank and Carlos P. Naudon (attached as Exhibit 10.4 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.5	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Carlos P. Naudon (attached as Exhibit 10.5 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.6	<a href="#"><u>Employment Agreement dated March 23, 2017, by and between Ponce De Leon Federal Bank and Steven Tsavaris (attached as Exhibit 10.6 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.7	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Steven Tsavaris (attached as Exhibit 10.7 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.8	<a href="#"><u>Employment Agreement dated March 31, 2017, by and between Ponce De Leon Federal Bank and Frank Perez (attached as Exhibit 10.8 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
10.9	<a href="#"><u>Form of Employment Agreement to be entered into by and among Ponce Bank Mutual Holding Company, PDL Community Bancorp and Frank Perez (attached as Exhibit 10.9 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
21.1	<a href="#"><u>Subsidiaries of the Registrant (attached as Exhibit 21.1 to the Registrant's Form S-1 (File No. 333-217275) filed with the Commission on April 12, 2017).</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF XBRL Taxonomy Extension Definition Linkbase Document  
101.LAB XBRL Taxonomy Extension Label Linkbase Document  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith.

## SIGNATURES

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

Date: November 8, 2019

Company Name

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**

**President and Chief Executive Officer**

Date: November 8, 2019

By: /s/ Frank Perez

**Frank Perez**

**Executive Vice President and Chief Financial Officer**

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

I, Carlos P. Naudon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDL Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 8, 2019

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**  
**President**  
**Chief Executive Officer**

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

I, Frank Perez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PDL Community Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 8, 2019

By: /s/ Frank Perez

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**Frank Perez**  
**Executive Vice President**  
**Chief Financial Officer**



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

In connection with the Quarterly Report of PDL Community Bancorp (the "Company") on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 8, 2019

By: /s/ Carlos P. Naudon

**Carlos P. Naudon**  
**President**  
**Chief Executive Officer**

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

In connection with the Quarterly Report of PDL Community Bancorp (the "Company") on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 8, 2019

By: /s/ Frank Perez

**Frank Perez**  
**Executive Vice President**  
**Chief Financial Officer**