



**NORTHEAST**  
COMMUNITY BANCORP, INC.

**NOTICE OF 2020 ANNUAL MEETING,  
PROXY STATEMENT AND  
2019 ANNUAL REPORT**

# **NORTHEAST COMMUNITY BANCORP, INC.**

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## **Corporate Profile**

Northeast Community Bancorp, Inc., headquartered in White Plains, New York, is the holding company for Northeast Community Bank. Established in 1934, Northeast Community Bank is a community-oriented financial institution offering traditional financial services to consumers and businesses in its market area. We conduct our lending activities throughout the Northeastern United States, including New York, Massachusetts, New Jersey and Connecticut. We attract deposits from the general public and use those funds to originate multi-family and mixed-use construction loans, multi-family and mixed-use permanent loans, commercial and industrial loans and limited consumer loans, which we hold for investment.

## **Transfer Agent**

*Computershare*

P.O. Box 505000

Louisville, KY, 40233-5000

1-800-368-5948

[www.computershare.com/investor](http://www.computershare.com/investor)

## **Stock Listing**

Northeast Community Bancorp, Inc.'s common stock is quoted over the counter on the OTC Pink marketplace under the symbol "NECB."

## **Locations**

### *Corporate Headquarters and Main Office Annex*

325 Hamilton Avenue  
White Plains, New York 10601

55 Church Street  
White Plains, New York 10601

### *Bank Branches*

325 Hamilton Avenue  
White Plains, New York 10601

1355 First Avenue  
New York, New York 10021

590 East 187<sup>th</sup> Street  
Bronx, New York 10458

72 West Eckerson Road  
Spring Valley, New York 10977

242 West 23<sup>rd</sup> Street  
New York, New York 10011

87 Elm Street  
Danvers, Massachusetts 01923

281 Quincy Avenue  
Quincy, Massachusetts 02169

35 Edgell Road  
Framingham, Massachusetts 01017

52 Bakertown Road,  
Palm Tree, New York 10950

1 Freeland Street  
Monroe, New York 10950

### *Loan Production Office*

301 North Main Street, Suite 5  
New City, New York 10956

### *Other Properties*

830 Post Road East  
Westport, Connecticut 06880



April 24, 2020

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of NorthEast Community Bancorp, Inc. The meeting will be held at the Renaissance Westchester Hotel, 80 W. Red Oak Lane, West Harrison, New York on Wednesday, May 20, 2020 at 9:00 a.m., local time.

The notice of annual meeting and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. Officers and directors of the Company, as well as a representative of BDO USA, LLP, the Company's independent registered public accountants, will be present to respond to appropriate questions of stockholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

A handwritten signature in black ink, appearing to read 'KAM', followed by a long horizontal line extending to the right.

Kenneth A. Martinek  
*Chairman and Chief Executive Officer*

**IMPORTANT NOTICE REGARDING ATTENDING THE MEETING  
AND VOTING SHARES HELD IN STREET NAME**

**If your shares are registered directly in your name at our transfer agent, Computershare, Inc., you will need photo identification to be admitted to the annual meeting.**

**If you hold your shares in street name, you will need photo identification *and* proof of ownership to be admitted to the annual meeting. Examples of proof of ownership include a recent brokerage statement or letter from a bank or broker. If you want to vote your shares of NorthEast Community Bancorp common stock held in street name in person at the annual meeting, you must obtain a written proxy in your name from the broker, bank or other holder of record of your shares.**

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**NORTHEAST**  
COMMUNITY BANCORP, INC.

325 Hamilton Avenue  
White Plains, New York 10601  
(914) 684-2500

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**NOTICE OF 2020 ANNUAL MEETING OF STOCKHOLDERS**

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**TIME AND DATE** . . . . . 9:00 a.m. on Wednesday, May 20, 2020

**PLACE** . . . . . Renaissance Westchester Hotel  
80 W. Red Oak Lane  
West Harrison, New York 10604

**ITEMS OF BUSINESS** . . . . . (1) To elect three directors to serve for a term of three years;

(2) To ratify the appointment of BDO USA, LLP as our independent accountants for fiscal year 2020; and

(3) To transact other business as may properly come before the meeting and any adjournment or postponement thereof.

**RECORD DATE** . . . . . In order to vote, you must have been a stockholder at the close of business on March 25, 2020.

**PROXY VOTING** . . . . . It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you. Voting instructions are printed on your proxy card or voting instruction card. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

Anne Stevenson-DeBlasi  
Corporate Secretary  
April 24, 2020

**IMPORTANT: Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope.**

**IMPORTANT NOTE ABOUT THE ANNUAL MEETING**

We intend to hold our annual in person. However, we are actively monitoring the coronavirus (COVID-19); we are sensitive to the public health and travel concerns our shareholders may have and the protocols that federal, state, and local governments may impose. In the event it is not possible or advisable to hold our annual meeting in person, we will announce alternative arrangements for the meeting as promptly as practicable, which may include holding the meeting solely by means of remote communication or postponing the meeting. Please monitor our investor relations website at <https://www.necommunitybank.com/About-Us/Investor-Relations> for updated information. If you are planning to attend our meeting, please check the website one week prior to the meeting date. As always, we encourage you to vote your shares prior to the annual meeting.

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# NORTHEAST COMMUNITY BANCORP, INC.

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## PROXY STATEMENT

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### GENERAL INFORMATION

We are providing this proxy statement to you in connection with the solicitation of proxies by the Board of Directors of NorthEast Community Bancorp, Inc. for the 2020 annual meeting of stockholders and for any adjournment or postponement of the meeting. NorthEast Community Bancorp is the holding company for NorthEast Community Bank.

We are holding the 2020 annual meeting at the Renaissance Westchester Hotel, 80 W. Red Oak Lane, West Harrison, New York on Wednesday, May 20, 2020 at 9:00 a.m., local time.

We intend to hold our annual in person. However, we are actively monitoring the coronavirus (COVID-19); we are sensitive to the public health and travel concerns our shareholders may have and the protocols that federal, state, and local governments may impose. In the event it is not possible or advisable to hold our annual meeting in person, we will announce alternative arrangements for the meeting as promptly as practicable, which may include holding the meeting solely by means of remote communication or postponing the meeting. Please monitor our investor relations website at <https://www.necommunitybank.com/About-Us/Investor-Relations> for updated information. If you are planning to attend our meeting, please check the website one week prior to the meeting date. As always, we encourage you to vote your shares prior to the annual meeting.

We intend to mail this proxy statement and the enclosed proxy card to stockholders of record beginning on or about April 24, 2020.

### INFORMATION ABOUT VOTING

#### Who Can Vote at the Meeting

You are entitled to vote the shares of NorthEast Community Bancorp common stock that you owned as of the close of business on March 25, 2020. As of the close of business on March 25, 2020, a total of 12,194,611 shares of NorthEast Community Bancorp common stock were outstanding, including 7,273,750 shares of common stock held by NorthEast Community Bancorp, MHC (the “MHC”). Each share of common stock has one vote.

#### Ownership of Shares; Attending the Meeting

You may own shares of NorthEast Community Bancorp in one or more of the following ways:

- Directly in your name as the stockholder of record; or
- Indirectly through a broker, bank or other holder of record in “street name;” or

If your shares are registered directly in your name at our transfer agent, Computershare Trust Company, N.A., you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us or to vote in

person at the annual meeting. **If you plan to attend the annual meeting you must bring photo identification to be admitted to the meeting.**

If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the voting instruction form provided by your broker, bank or other holder of record that accompanies this proxy statement. **If you hold your shares in street name, you will need photo identification and proof of ownership to be admitted to the annual meeting.** Examples of proof of ownership include a recent brokerage statement or letter from a bank or broker. If you want to vote your shares of NorthEast Community Bancorp common stock held in street name in person at the annual meeting, you must obtain a written proxy in your name from the broker, bank or other holder of record of your shares.

If you hold shares through the NorthEast Community Bank Employee Stock Ownership Plan (the “ESOP”) or the NorthEast Community Bank 401(k) Plan (the “401(k) Plan”), you will receive a voting instruction card for each plan in which you participate that reflects all shares that you may direct the trustee to vote on your behalf under such plan.

For information on your voting rights as a participant under the ESOP or the 401(k) Plan, see “—*Participants in the Bank’s ESOP or 401(k) Plan.*”

## **Quorum and Votes Required**

***Quorum.*** We will have a quorum and will be able to conduct the business of the annual meeting if the holders of a majority of the outstanding shares of common stock entitled to vote are present at the meeting, either in person or by proxy.

***Vote Required for Proposals.*** At this year’s annual meeting, stockholders will elect three directors to each serve a term of three years. In voting on the election of directors, you may vote in favor of all the nominees for director, withhold votes as to all nominees, or withhold votes as to specific nominees. There is no cumulative voting for the election of directors. Directors must be elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected.

In voting on the ratification of the appointment of BDO USA, LLP as the Company’s independent accountants, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To approve this matter, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote at the annual meeting is required.

***Effect of Not Casting Your Vote.*** If you hold your shares in street name it is critical that you cast your vote if you want it to count in the election of directors (Item 1 of this Proxy Statement). Current regulation restricts the ability of your bank or broker to vote your uninstructed shares on this matter on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote on this matter, no votes will be cast on your behalf. These are referred to as broker non-votes. Your bank or broker does, however, have discretion to vote any uninstructed shares on the ratification of the appointment of the Company’s independent accountants (Item 2 of this Proxy Statement).



***How We Count Votes.*** If you return valid proxy instructions or attend the meeting in person, we will count your shares for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes, if any, also will be counted for purposes of determining the existence of a quorum.

In the election of directors, votes withheld and broker non-votes will have no effect on the outcome of the election. In counting votes on the proposal to ratify the appointment of the independent accountants, abstentions and broker non-votes will have no effect on the vote on this matter.

Because NorthEast Community Bancorp, MHC owns in excess of 50% of the outstanding shares of NorthEast Community Bancorp, Inc. common stock, the votes it casts will ensure the presence of a quorum and control the outcome of the vote on all proposals.

### **Voting by Proxy**

The Company's Board of Directors is sending you this proxy statement to request that you allow your shares of Company common stock to be represented at the annual meeting by the persons named on the enclosed proxy card. All shares of Company common stock represented at the meeting by properly executed and dated proxy cards will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors.

#### **The Board of Directors recommends that you vote:**

- **“FOR” each of the nominees for director; and**
- **“FOR” ratification of the appointment of BDO USA, LLP as the Company's independent accountants.**

If any matters not described in this proxy statement are properly presented at the annual meeting, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the annual meeting in order to solicit additional proxies. If the annual meeting is postponed or adjourned, your Company common stock may be voted by the persons named in the proxy card on the new annual meeting date, provided you have not revoked your proxy. We do not know of any other matters to be presented at the annual meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Corporate Secretary of the Company in writing before your common stock has been voted at the annual meeting, deliver a later dated proxy or attend the meeting and vote your shares in person. Attendance at the annual meeting will not itself constitute revocation of your proxy.

### **Participants in the Bank's ESOP or 401(k) Plan**

If you participate in the NorthEast Community Bank Employee Stock Ownership Plan (the “ESOP”), or if you hold Company common stock through the NorthEast Community Bank 401(k) Plan (the “401(k) Plan”), you will receive a voting instruction card for each plan in which you participate that reflects all shares that you may direct the trustee to vote on your behalf under such plan. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary duties, will vote all unallocated shares of Company common stock

held by the ESOP and all allocated shares for which no voting instructions are received in the same proportion as shares for which the trustee has received timely voting instructions. Under the terms of the 401(k) Plan, a participant is entitled to direct the trustee how to vote the shares in the NorthEast Community Bancorp, Inc. Stock Fund credited to his or her account. If the 401(k) Plan trustee does not receive timely voting instructions for the shares of Company common stock held in the 401(k) Plan, the shares will not be voted. **The deadline for returning your voting instructions to each plan's trustee is May 13, 2020.**

## **CORPORATE GOVERNANCE AND BOARD MATTERS**

### **Director Independence**

The Company's Board of Directors currently consists of nine members, all of whom are independent under the listing requirements of The NASDAQ Stock Market, a standard we voluntarily choose to follow, except for Kenneth A. Martinek, Chief Executive Officer of the Company and the Bank, Jose M. Collazo, President and Chief Operating Officer of the Company, and the Bank and Charles A. Martinek, Senior Vice President and Chief Compliance Officer of the Bank and brother of Kenneth A. Martinek.

### **The Board's Role in Risk Oversight**

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Board meets regularly with management to discuss strategy and risks facing the Company. Senior management attends the Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The independent members of the Board work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors.

### **Committees of the Board of Directors**

The following table identifies the members of our Audit, Compensation, and Nominating/Corporate Governance Committees as of March 25, 2020. Each of the committees operates under a written charter that is approved by the Board of Directors. Each committee reviews and reassesses the adequacy of its charter at least annually. The charters of all three committees are available in the Investor Relations section of the Company's website, *www.necb.com*.

<b>Director</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Nominating/ Corporate Governance Committee</b>
Diane B. Cavanaugh .....		X*	X
Charles M. Cirillo .....	X*		
Eugene M. Magier.....	X		X
John F. McKenzie .....		X	
Kevin P. O'Malley .....	X	X	
Kenneth H. Thomas .....			X*
Number of Meetings in 2019 .....	6	1	1

\* Denotes Chairperson

In addition to the committees referenced above, the Bank's Board of Directors also maintains a standing Bank Secrecy Act Committee (the "Director BSA Committee"), which was comprised of Charles M. Cirillo (Chair), Eugene M. Magier and John F. McKenzie.

### **Audit Committee**

The Audit Committee assists the Board of Directors in its oversight of the Company's accounting and reporting practices, the quality and integrity of the Company's financial reports and the Company's compliance with applicable laws and regulations. The Audit Committee is also responsible for engaging the Company's independent accountants and monitoring its conduct and independence. The Board of Directors has determined that Charles M. Cirillo is an audit committee financial expert as defined under the rules of the Securities and Exchange Commission.

### **Compensation Committee**

The Compensation Committee approves the compensation objectives for the Company and the Bank and establishes the compensation for the Chief Executive Officer and other executives. Our Chief Executive Officer makes recommendations to the Compensation Committee from time to time regarding the appropriate mix and level of compensation for other executives. Those recommendations consider the objectives of our compensation philosophy and the range of compensation programs authorized by the Compensation Committee. The Compensation Committee reviews all compensation components for the Company's Chief Executive Officer and other highly compensated executive officers' compensation including base salary, annual incentive, long-term incentives and other perquisites. In addition to reviewing competitive market values, the Compensation Committee also examines the total compensation mix, pay-for-performance relationship, and how all elements, in the aggregate, comprise the executive's total compensation package. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved by the full Board of Directors. The Compensation Committee also assists the Board of Directors in evaluating potential candidates for executive positions.

### **Nominating/Corporate Governance Committee**

The Company's Nominating/Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines. The Nominating/Corporate Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of stockholders. Further, when identifying nominees to serve as director, the Nominating/Corporate Governance Committee seeks to create a Board that is strong in its collective

knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance. The procedures of the Nominating/Corporate Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are set forth below.

***Minimum Qualifications For Director Nominees.*** The Nominating/Corporate Governance Committee has adopted a set of criteria that it considers when it selects individuals to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's bylaws, which include a minimum stock ownership requirement and a requirement that the candidate not have been subject to certain criminal or regulatory actions. A candidate also must meet any qualification requirements set forth in any Board or committee governing documents.

Candidates deemed eligible for election to the Board of Directors are evaluated by the Nominating/Corporate Governance Committee using the following criteria for selecting nominees:

- financial, regulatory and business experience and skills;
- familiarity with and participation in the local community;
- integrity, honesty and reputation in connection with upholding a position of trust with respect to customers;
- ability to devote sufficient time and energy to diligently perform duties; and
- independence.

The Nominating/Corporate Governance Committee will also consider any other factors the Committee deems relevant, including age, diversity, size of the Board of Directors and regulatory disclosure obligations.

In addition, before nominating an existing director for re-election to the Board of Directors, the Nominating/Corporate Governance Committee will consider and review an existing director's integrity; Board and committee attendance and performance; length of Board service; experience, skills and contributions that the existing director brings to the Board; and independence.

***Director Nomination Process.*** The process that the Nominating/Corporate Governance Committee follows to identify and evaluate individuals to be nominated for election to the Board of Directors is as follows:

***Identification.*** For purposes of identifying nominees for the Board of Directors, the Nominating/Corporate Governance Committee relies on personal contacts of the committee members and other members of the Board of Directors, as well as its knowledge of members of the communities served by the Bank. The Nominating/Corporate Governance Committee will also consider director candidates recommended by stockholders in accordance with the policy and procedures set forth below. The Nominating/Corporate Governance Committee has not previously used an independent search firm to identify nominees.

***Evaluation.*** In evaluating potential nominees, the Nominating/Corporate Governance Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under the selection criteria described above. If such individual fulfills these

criteria, the Nominating/Corporate Governance Committee will conduct a check of the individual's background and interview the candidate to further assess the qualities of the prospective nominee and the contributions he or she would make to the Board.

***Consideration of Recommendations by Stockholders.*** It is the policy of the Nominating/Corporate Governance Committee of the Board of Directors of the Company to consider director candidates recommended by stockholders who appear to be qualified to serve on the Company's Board of Directors. The Nominating/Corporate Governance Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating/Corporate Governance Committee does not perceive a need to increase the size of the Board of Directors. To avoid the unnecessary use of the Nominating/Corporate Governance Committee's resources, the Nominating/Corporate Governance Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

***Procedures to be Followed by Stockholders.*** To submit a recommendation of a director candidate to the Nominating/Corporate Governance Committee, a stockholder should submit the following information in writing, addressed to the Chairman of the Nominating/Corporate Governance Committee, care of the Corporate Secretary, at the main office of the Company:

1. The name of the person recommended as a director candidate;
2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended;
3. The written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serving as a director if elected;
4. As to the stockholder making the recommendation, the name and address of such stockholder as they appear on the Company's books; provided, however, that if the stockholder is not a registered holder of the Company's common stock, the stockholder should submit his or her name and address along with a current written statement from the record holder of the shares that reflects ownership of the Company's common stock; and
5. A statement disclosing whether such stockholder is acting with or on behalf of any other person and, if applicable, the identity of such person.

In order for a director candidate to be considered by the Company's Board of Directors for nomination at the Company's annual meeting of stockholders, the recommendation must be received by the Nominating/Corporate Governance Committee at least 120 calendar days before the date the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting, advanced by one year.

## **Director Compensation**

Each non-employee director of the Bank receives a \$4,125 quarterly retainer plus \$1,375 per meeting attended. Non-employee directors also receive a \$750 quarterly retainer plus \$750 per meeting attended for their service on the Board of Directors of the Company, \$500 per meeting attended for service on the Audit, Compensation, Nominating/Corporate Governance and Director BSA Committees of the Board of the Company, and \$1,000 per meeting attended for service on the Strategic Planning Committee. In addition, the Chairperson of the Audit Committee receives a \$3,000 quarterly retainer and

the Chairpersons of the Compensation, Nominating/Corporate Governance Committee and Directors BSA Committee each receive a \$1,250 quarterly retainer. Directors do not receive any fees for their service on the Board of Directors of NorthEast Community Bancorp, MHC.

### **Board and Committee Meetings**

During 2019, the Board of Directors of the Company and the Bank held 14 meetings. Each of our current directors attended at least 75% of the Board meetings and the committee meetings on which such director served during 2019.

### **Director Attendance at Annual Meeting of Stockholders**

The Board of Directors encourages each director to attend annual meetings of stockholders. All of the Company's directors attended the 2019 annual meeting of stockholders.

### **Code of Ethics and Business Conduct**

The Company has adopted a Code of Ethics and Business Conduct that is designed to promote the highest standards of ethical conduct by the Company's directors, executive officers and employees. The Code of Ethics and Business Conduct requires that the Company's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's best interest. Under the terms of the Code of Ethics and Business Conduct, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics and Business Conduct. A copy of the Code of Ethics and Business Conduct can be found in the Investor Relations section of the Company's website, [www.necb.com](http://www.necb.com).

## **REPORT OF THE AUDIT COMMITTEE**

The Company's management is responsible for the Company's internal controls and financial reporting process. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those financial statements with generally accepted accounting principles. The Audit Committee oversees the Company's internal controls and financial reporting process on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent accountants. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The Audit Committee discussed with the independent accountants matters required to be discussed pursuant to U.S. Auditing Standards No. 16 (Communications with Audit Committees). In addition, the Audit Committee has received the written disclosures and the letter from the independent accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with the independent accountants the independent accountants' independence. In concluding that the auditors are independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the auditors were compatible with their independence.

The Audit Committee discussed with the Company's independent accountants the overall scope and plans for their audit. The Audit Committee meets with the independent accountants, with and without management present, to discuss the results of their examination, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent accountants who, in their report, express an opinion on the conformity of the Company's financial statements to generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent accountants do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's consolidated financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board (United States) or that the Company's independent accountants are in fact "independent."

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, the audited consolidated financial statements for the year ended December 31, 2019.

**Audit Committee of the Board of Directors of  
NorthEast Community Bancorp, Inc.**

Charles M. Cirillo (Chairman)  
Eugene M. Magier  
Kevin P. O'Malley

## STOCK OWNERSHIP

The following table provides information as of March 25, 2020, with respect to persons known by the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investing power.

<u>Name and Address</u>	<u>Number of Shares Owned</u>	<u>Percent of Common Stock Outstanding (1)</u>
NorthEast Community Bancorp, MHC <sup>(2)</sup> ..... 325 Hamilton Avenue White Plains, New York 10601	7,273,750	59.6%
Stilwell Value Partners IV, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Partners, L.P., Stilwell Value LLC, and Joseph Stilwell <sup>(3)</sup> ..... 111 Broadway, 12 <sup>th</sup> Floor New York, New York 10006	1,236,102 <sup>(3)</sup>	10.1%

- (1) Based on 12,194,611 shares of the Company's common stock outstanding and entitled to vote as of March 25, 2020.
- (2) The members of the Board of Directors of NorthEast Community Bancorp and NorthEast Community Bank also constitute the Board of Directors of NorthEast Community Bancorp, MHC.
- (3) Based on information contained in a Schedule 13D/A filed with the Securities and Exchange Commission on April 17, 2014, which indicates that Stilwell Value Partners IV, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Partners, L.P., Stilwell Value LLC, and Joseph Stilwell have shared voting and dispositive power over 1,236,102 shares. This is the most recent information that is publicly available and the amount held by this shareholder as of March 25, 2020 may be more or less than the amount stated above.



The following table provides information as of March 25, 2020 about the shares of Company common stock that may be considered to be beneficially owned by each director, nominee for director, executive officers named in the *Summary Compensation Table* and by all directors, nominees for director and executive officers of the Company as a group. A person may be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the shares shown. All directors and executive officers as a group own 1.2% of the Company's outstanding shares based on 12,194,611 shares of the Company's common stock outstanding and entitled to vote as of March 25, 2020.

<u>Name</u>	<u>Number of Shares Owned (1)(2)</u>
Diane B. Cavanaugh .....	500
Charles M. Cirillo .....	10
Jose M. Collazo .....	26,184
Donald Hom .....	9,924
Eugene M. Magier .....	9,000 <sup>(3)</sup>
Charles A. Martinek.....	13,752
Kenneth A. Martinek.....	75,387
John F. McKenzie.....	5,000
Kevin P. O'Malley.....	2,020
Kenneth H. Thomas.....	10,000 <sup>(4)</sup>
All Executive Officers, Directors and Director Nominees, as a Group (10 persons).....	151,777

- (1) Includes shares allocated to the account of individuals under the Bank's ESOP with respect to which individuals have voting but not investment power as follows: Mr. Charles Martinek – 9,393 shares, Mr. Kenneth Martinek – 28,546 shares (including 5,702 shares allocated to Mr. Martinek's spouse), Mr. Collazo – 23,845 shares (including 9,915 shares allocated to Mr. Collazo's spouse) and Mr. Hom – 9,923 shares.
- (2) Includes shares held in trust in the 401(k) Plan as to which each individual has investment and voting power as follows: Mr. Charles Martinek – 4,329 shares, Mr. Kenneth Martinek – 46,840 shares, Mr. Collazo – 2,287 shares and Mr. Collazo's spouse – 4,220. These amounts reflect ownership units in the employer stock fund of the 401(k) Plan, which consists of both issuer stock and a reserve of cash. The actual number of shares held by the individual may vary when such units are actually converted into shares upon distribution of the units to the individual.
- (3) Includes 1,900 shares held by Mr. Magier's spouse's IRA.
- (4) Includes 370 shares held by Mr. Thomas' spouse's IRA.

## ITEMS TO BE VOTED ON BY STOCKHOLDERS

### Item 1 — Election of Directors

The Board of Directors of NorthEast Community Bancorp is presently composed of nine members. The Board is divided into three classes, each with three-year staggered terms, with approximately one-third of the directors elected each year. At this year's annual meeting, stockholders will elect three directors to each serve a term of three years. The nominees for election to serve a three-year term are Jose M. Collazo, John F. McKenzie and Kevin P. O'Malley. Each of the nominees is a current director of the Company and the Bank.

Unless you indicate on your proxy card that your shares should not be voted for certain directors, the Board of Directors intends that the proxies solicited by it will be voted for the election of all of the Board's nominees. If any nominee is unable to serve, the persons named in the proxy card will vote your

shares to approve the election of any substitute proposed by the Board of Directors. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the Board. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve. **The Board of Directors recommends a vote “FOR” the election of all nominees.**

Information regarding the Board of Director’s nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated for each individual is as of December 31, 2019 and the indicated period of service as a director includes service as a director of the Bank. Based on their respective experiences, qualifications, attributes and skills set forth below, the Board of Directors determined that each current director and nominee should serve as a director.

### **Board Nominees for Terms Ending in 2023**

**Jose M. Collazo** has served as President of the Company and the Bank since January 2013 and Chief Operating Officer of the Company and the Bank since February 2012. Prior to being appointed Chief Operating Officer Mr. Collazo served as Senior Vice President and Chief Information Officer from 2002 to February 2012. Mr. Collazo joined the Bank in January 1986. Age 54. Director since 2013.

Mr. Collazo’s extensive knowledge of all aspects of the Bank’s and the Company’s business and history, combined with his strategic vision, position him well to continue to serve as our Director, President and Chief Operating Officer.

**John F. McKenzie** is a retired insurance executive. Prior to his retirement in early 2008, Mr. McKenzie was the owner of an insurance agency in Orange, Connecticut, providing multiline personal and commercial insurance products. Age 76. Director since November 2006.

Mr. McKenzie provides the Board with significant management, strategic and operational knowledge through his previous experience as owner of an insurance agency.

**Kevin P. O’Malley** is an attorney and is president of the Kevin P. O’Malley, P.C., a law firm located in Tappan, New York. Age 74. Director since 2016.

Mr. O’Malley is a critical member of a well-rounded Board of Directors. As a practicing attorney, Mr. O’Malley provides knowledge and expertise directly related to the various legal matters affecting the Company and the Bank.

### **Directors With Terms Ending in 2021**

**Diane B. Cavanaugh** has served as a Principal Appellate Court Attorney for the First Judicial Department of the Appellate Division of the New York State Supreme Court since February 2019. Prior to that time, Ms. Cavanaugh was an attorney with Lyons McGovern, LLP from January 2010 to January 2019. Age 63. Director since 1992.

Ms. Cavanaugh has the ability to provide the Board with the legal knowledge necessary to assess issues facing the Board effectively.

**Charles A. Martinek** has served as Senior Vice President and Chief Compliance Officer of NorthEast Community Bank since September, 2013. Prior to that time, Mr. Martinek served as Internal Loan Review and Community Reinvestment Officer of the Bank since May, 2007, commercial loan officer with the Bank since 2001, and as an assistant vice president since 2002. Before serving with the

Bank, Mr. Martinek was a quality control analyst with C. Cowles & Co. Mr. Martinek is also the owner of Martinek Investment Properties, LLC. Mr. Martinek's brother, Kenneth Martinek, also serves on the Board of Directors. Age 58. Director since 2002.

Mr. Martinek's commercial loan and compliance experience is crucial to the Board's ability to comprehend the complex compliance issues facing the Company.

**Kenneth H. Thomas** has been an independent bank analyst and consultant since 1969 and has been President of K.H. Thomas Associates, LLC since 1975. Mr. Thomas is also a registered investment advisor and President of Community Development Advisors, LLC. Dr. Thomas holds a Ph.D. in Finance from the Wharton School and has written extensively on the Community Reinvestment Act of 1977. He has been a consultant to the Bank since 1978. Age 72. Director since 2001.

As an independent bank analyst for over 40 years, Dr. Thomas offers the Board essential industry experience. In addition, Dr. Thomas is a critical advisor to the Bank for operational, branching and Community Reinvestment Act matters.

### **Directors With Terms Ending in 2022**

**Charles M. Cirillo** is a certified public accountant and is a partner in the accounting firm Cirillo & Cirillo CPAs LLP. Age 54. Director since 2018.

Mr. Cirillo's accounting and business experience provides the Board with valuable insight and expertise with regard to various financial and accounting matters affecting the Company.

**Eugene M. Magier** is an attorney and has been President of the Law Offices of Eugene M. Magier, P.C. since 1994. Mr. Magier is a licensed Massachusetts Real Estate Broker and has managed residential and commercial real estate. Prior to starting his own law firm, Mr. Magier served as Legal Counsel for CVS Corporation. Age 58. Director since 2012.

Mr. Magier's experience and background as an attorney specializing in commercial real estate, acquisitions, workouts and contracts provides the Board with valuable knowledge and expertise directly related to the business issues facing the Company and the Bank.

**Kenneth A. Martinek** has served as Chairman of the Board and Chief Executive Officer of NorthEast Community Bancorp since its formation in 2006 and previously served as President from 2006 until January 2013. He has served with NorthEast Community Bank since 1976 and has been the Chief Executive Officer of the Bank since 1991 and was the President from 1991 until January 2013. Mr. Martinek was first elected as a director of the Bank in 1983 and was appointed Chairman of the Board in 2002. Mr. Martinek's brother, Charles A. Martinek, also serves on the Board of Directors. Age 67.

Since becoming Chief Executive Officer of the Bank in 1991, Mr. Martinek has successfully completed a mutual holding company reorganization and minority stock offering and navigated the issues facing a public company in the banking sector. Mr. Martinek's knowledge of all aspects of the business and its history, combined with his success and strategic vision, position him well to continue to serve as our Chairman and Chief Executive Officer.

## **Item 2 — Ratification of the Independent Accountants**

The Audit Committee of the Board of Directors has appointed BDO USA, LLP to be the Company's independent accountants for 2020, subject to ratification by shareholders. A representative of BDO USA, LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of the independent accountants is not approved by the stockholders at the annual meeting, the Audit Committee will consider other independent accountants.

### **Policy on Pre-Approval of Audit and Permissible Non-Audit Services**

The Audit Committee is responsible for appointing and setting the compensation and overseeing the work of the independent accountants. In accordance with its charter, the Audit Committee approves, in advance, all audit and permissible non-audit services to be performed by the independent accountants to ensure that the independent accountants does not provide any non-audit services to the Company that are prohibited by law or regulation.

In addition, the Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by the independent accountants. Requests for services by the independent accountants must be specific as to the particular services to be provided. The request may be made with respect to either specific services or a type of service for predictable or recurring services. During the year ended December 31, 2019, all services provided by the independent accountants were approved, in advance, by the Audit Committee in compliance with these procedures.

**The Board of Directors recommends that stockholders vote “FOR” the ratification of the appointment of BDO USA, LLP as the independent accountants.**

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides information concerning total compensation earned or paid to the Chief Executive Officer and the two other most highly compensated executive officers of the Company who served in such capacities at December 31, 2019. These three officers are referred to as the “named executive officers” in this proxy statement.

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary (\$)</i>	<i>Bonus (\$)</i>	<i>All Other Compensation (\$)(1)</i>	<i>Total (\$)</i>
Kenneth A. Martinek .....	2019	388,565	185,000	20,031	593,596
	2018	388,170	179,813	25,352	593,335
Jose M. Collazo .....	2019	300,711	150,000	18,999	469,710
	2018	300,661	122,273	23,069	446,003
Donald S. Hom .....	2019	237,400	121,500	15,927	374,827
	2018	237,400	107,888	19,389	364,677

(1) Represents the value of employee stock ownership plan shares awarded during the years ended December 31, 2019 and 2018.

**Employment Agreements.** The Company and the Bank each maintain employment agreements with Kenneth A. Martinek and Jose M. Collazo. The employment agreements with the Company and the Bank for each executive, which have essentially identical terms, provide that the Company will make any payments not made by the Bank, but the executives will not receive any duplicative payments. Messrs. Martinek and Collazo are also referred to below as the “executives” or the “executive.”

The employment agreements with Messrs. Martinek and Collazo provide for three-year terms, subject to annual renewal by the Boards of Directors. In connection with a review of the executive officers’ job performance, the Board of Directors of the Bank and the Company approved the extension of the employment agreement with Mr. Martinek through July 5, 2023 and the extension of the employment agreement with Mr. Collazo through May 11, 2023. The agreements also provide for participation in employee benefit plans and programs maintained for the benefit of senior management personnel, including discretionary bonuses, participation in stock-based benefit plans, and fringe benefits.

Under the terms of the agreements, the executives are subject to a one year non-compete if they terminate their employment for good reason (as defined in the agreement) or if they are terminated without cause (as defined in the agreement). This non-compete provision shall not apply if the executives are terminated within one year of a change of control.

See “*Potential Post-Termination Benefits*” for a discussion of the benefits and payments the executives may receive under their employment agreements upon retirement or termination of employment.

**Supplemental Executive Retirement Plan.** The Bank also maintains a supplemental executive retirement plan in which Kenneth A. Martinek and Jose M. Collazo participate.

See “*Potential Post-Termination Benefits*” for a discussion of the benefits and payments the executives may receive under the supplemental executive retirement plan upon retirement or termination of employment.

### **Potential Post-Termination Benefits**

***Payments Made Upon Termination for Cause.*** Under the employment agreements, an executive who is terminated for cause will receive base salary through the date of termination and retain the rights to any vested benefits subject to the terms of the plan or agreement under which those benefits are provided.

***Payments Made Upon Retirement.*** Under the terms of the employment agreements with the executives, the executives will be entitled to their base salary earned as of the date of retirement, as well as all vested benefits under the Bank-sponsored tax-qualified retirement plans. In addition, the Bank maintains supplemental executive retirement plans for Messrs. Martinek and Collazo. Under the terms of the plans, upon termination of employment on or after the normal retirement age of 60 for Mr. Martinek and 65 for Mr. Collazo, the executives each receive an annual retirement benefit equal to fifty percent (50%) of average base salary over the three-year period preceding termination of employment. Upon termination on or after age 60 and upon completing a minimum of 20 years of service Mr. Collazo may receive an early retirement benefit equal to the normal retirement benefit, reduced by .25% for each month by which Mr. Collazo’s age at termination is less than age 65. The early or normal retirement benefit is payable in equal monthly installments for the greater of the executive’s lifetime or 15 years following retirement. All unvested equity awards granted to the executives will be forfeited upon retirement.

***Payments Made Upon Voluntarily Termination and Termination without Cause or for Good Reason.*** If the Bank and the Company terminate the executives for reasons other than cause, or if the executives terminate voluntarily under certain circumstances outlined in the employment agreements that constitute constructive termination, the executives, or their beneficiaries should they die prior to receipt of payment, each receive an amount equal to their base salary and employer contributions to benefit plans payable for the remaining term of the agreement. The Bank and the Company also agree to continue and/or pay for the executives’ life, health and dental coverage for the remaining term of the agreements. The executives will be entitled to their supplemental benefits under the supplemental executive retirement plan as described under “Payments Made Upon Retirement” depending on their age as of the termination date.

***Payments Made Upon Disability.*** Under the employment agreements, if the executives become disabled, the Bank and the Company agree to provide them with monthly disability pay equal to 75% of their monthly base salaries for a period ending on the earliest to occur of (1) a return to full-time employment with the Bank and the Company; (2) death; (3) attainment of age 65; or (4) the expiration of the employment agreement. The disability payments under the agreement would be reduced, however, by the amount of any short- or long-term disability benefits that would become payable to the executives under the terms of any disability insurance programs sponsored by the Bank and the Company.

In the event of termination due to disability, the executives will receive the early retirement benefit or normal retirement benefit due under the supplemental executive retirement plan if they have reached age 65 (or age 60 in the case of Mr. Martinek), respectively, prior to termination. If they have not attained early retirement age prior to termination due to disability, they will receive a benefit equal to their accrued benefit under the plan as of the date of termination.

***Payments Made Upon Death.*** Upon the death of an executive, the executive's employment agreement terminates and the executive's beneficiary will receive base salary and accrued benefits through the last day of the month of death.

The supplemental executive retirement plan provides that upon the death of the executive while actively employed, they, or their beneficiary, would receive an actuarially equivalent lump sum benefit, calculated as if the executive had attained the normal retirement age prior to his death.

***Payments Made Upon a Change in Control.*** Under the employment agreements, if an executive is involuntarily or constructively terminated within one year of a change in control (as defined in the agreements), the executive will receive a severance payment equal to three times his or her average annual compensation over the five preceding years, as well as continued life, medical and dental benefits for three years following termination of employment.

The benefits provided to the executives under the employment agreements upon a change in control are limited to avoid adverse tax consequences to the Company and the Bank under Section 280G of the Internal Revenue Code of 1986. The "280G Limit" provides that total payments and benefits to the executives that are contingent upon a change in control shall not equal or exceed in the aggregate three times the individual's average annual taxable income over the five preceding years.

The supplemental executive retirement plan provides that upon termination in connection with a change in control Messrs. Martinek and Collazo, or their beneficiary, would receive an actuarially equivalent lump sum benefit, calculated as if they had attained age 60 for Mr. Martinek and age 65 for Mr. Collazo prior to termination of employment.

Under the terms of our employee stock ownership plan, upon a change in control (as defined in the plan), the plan will terminate and the plan trustee will repay in full any outstanding acquisition loan. After repayment of the acquisition loan, all remaining shares of our stock held in the loan suspense account, all other stock or securities, and any cash proceeds from the sale or other disposition of any shares of our stock held in the loan suspense account will be allocated among the accounts of all participants in the plan who were employed by us on the date immediately preceding the effective date of the change in control. The allocations of shares or cash proceeds shall be credited to each eligible participant in proportion to the opening balances in their accounts as of the first day of the valuation period in which the change in control occurred. Payments under our employee stock ownership plan do not count towards the executives' 280G Limits.

## **OTHER INFORMATION RELATING TO DIRECTORS AND EXECUTIVE OFFICERS**

### **Transactions with Related Persons**

The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by any bank to its executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features. All banks are therefore prohibited from making any new loans or extensions of credit to executive officers and directors at different rates or terms than those offered to the general public, except for loans made pursuant to programs generally available to all employees. Notwithstanding this rule, federal regulations permit

banks to make loans to executive officers and directors at reduced interest rates if the loan is made under a benefit program generally available to all other employees and does not give preference to any executive officer or director over any other employee, although the Bank does not currently have such a program in place.

### **SUBMISSION OF BUSINESS PROPOSALS AND STOCKHOLDER NOMINATIONS**

The Company must receive proposals that stockholders seek to include in the proxy statement for the Company's next annual meeting no later than December 25, 2020. If next year's annual meeting is held on a date more than 30 calendar days from May 20, 2021, a stockholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation for such annual meeting. Any stockholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

The Company's bylaws provide that, in order for a stockholder to make nominations for the election of directors or proposals for business to be brought before the annual meeting, a stockholder must deliver notice of such nominations and/or proposals to the Secretary not less than 30 days before the date of the annual meeting. However, if less than 40 days' notice or prior public disclosure of the date of the annual meeting is given to stockholders, such notice of stockholder nominations or proposals must be received not later than the close of business of the tenth day following the day on which notice of the date of the annual meeting was mailed to stockholders or prior public disclosure of the meeting date was made. A copy of the bylaws may be obtained from the Company.

### **STOCKHOLDER COMMUNICATIONS**

The Company encourages stockholder communications to the Board of Directors. All communications from stockholders should be addressed to NorthEast Community Bancorp, Inc., 325 Hamilton Avenue, White Plains, New York 10601. Communications to the Board of Directors should be in the care of Anne Stevenson-DeBlasi, Corporate Secretary. Stockholders who wish to communicate with a Committee of the Board should send their communications to the care of the Chairperson of the particular committee, with a copy to Kenneth H. Thomas, the Chair of the Nominating/Corporate Governance Committee. It is in the discretion of the Nominating/Corporate Governance Committee whether any communication sent to the full Board should be brought before the full Board.

### **NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on May 20, 2020.**

The Proxy Statement and Annual Report to Stockholders are available at: [https://www.necb.com/Portals/NorthEastCommunityBank/PDFs/2020\\_Meeting\\_2019\\_Proxy\\_Annual\\_Rpt.pdf](https://www.necb.com/Portals/NorthEastCommunityBank/PDFs/2020_Meeting_2019_Proxy_Annual_Rpt.pdf).



## MISCELLANEOUS

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company. Additionally, directors, officers and other employees of the Company may solicit proxies personally or by telephone. None of these persons will receive additional compensation for these activities.

The Company's Annual Report to Stockholders has been included with this proxy statement. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated by reference into this proxy statement.

If you and others who share your address own your shares in "street name," your broker or other holder of record may be sending only one annual report and proxy statement to your address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a stockholder residing at such an address wishes to receive a separate annual report or proxy statement in the future, he or she should contact the broker or other holder of record. If you own your shares in "street name" and are receiving multiple copies of our annual report and proxy statement, you can request householding by contacting your broker or other holder of record.

Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating and promptly returning the enclosed proxy card in the enclosed envelope.

BY ORDER OF THE BOARD OF DIRECTORS



Anne Stevenson-DeBlasi  
*Corporate Secretary*

White Plains, New York  
April 24, 2020

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***Northeast Community Bancorp, Inc.***

Consolidated Financial Report

December 31, 2019

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Tel: 212-885-8000  
Fax: 212-697-1299  
www.bdo.com

100 Park Avenue  
New York, NY 10017

## Independent Auditor's Report

Board of Directors and Stockholders  
Northeast Community Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Northeast Community Bancorp, Inc. (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Community Bancorp, Inc. as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

New York, New York  
April 8, 2020

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

# Northeast Community Bancorp, Inc.

## Consolidated Statements of Financial Condition

	December 31,	
	2019	2018
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$ 17,160	\$ 11,484
Interest-bearing deposits	110,515	39,868
Cash and cash equivalents	127,675	51,352
Certificates of deposit	100	100
Equity Securities	10,044	-
Securities available-for-sale, at fair value	5	8,770
Securities held-to-maturity (fair value of \$9,215 and \$5,962, respectively)	9,149	6,041
Loans receivable, net of allowance for loan losses of \$4,611 and \$4,196 respectively	747,882	747,841
Premises and equipment, net	18,624	15,446
Investments in restricted stock, at cost	1,348	2,360
Bank owned life insurance	24,082	23,516
Accrued interest receivable	3,955	4,126
Goodwill	749	749
Other intangible assets	-	40
Real estate owned	2,164	2,164
Property held for investment	1,555	1,592
Right of Use Assets - Operating	1,150	-
Right of Use Assets - Financing	366	-
Other assets	6,323	6,228
<b>Total assets</b>	<b>\$ 955,171</b>	<b>\$ 870,325</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 140,001	\$ 108,353
Interest bearing	639,157	578,743
Total deposits	779,158	687,096
Advance payments by borrowers for taxes and insurance	2,828	3,213
Federal Home Loan Bank advances	21,000	42,461
Lease Liability - Operating	1,156	-
Lease Liability - Financing	424	-
Accounts payable and accrued expenses	8,492	7,937
<b>Total liabilities</b>	<b>813,058</b>	<b>740,707</b>
Stockholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 12,194,611 shares at December 31, 2019 and 2018	132	132
Additional paid-in capital	56,902	56,862
Unearned Employee Stock Ownership Plan ("ESOP") shares	(1,555)	(1,814)
Retained earnings	93,767	81,792
Treasury stock – at cost, 1,030,389 shares at December 31, 2019 and 2018	(7,032)	(7,032)
Accumulated other comprehensive loss	(101)	(322)
<b>Total stockholders' equity</b>	<b>142,113</b>	<b>129,618</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 955,171</b>	<b>\$ 870,325</b>

See notes to consolidated financial statements.

# Northeast Community Bancorp, Inc.

## Consolidated Statements of Income

	Years Ended December 31,	
	2019	2018
	(In thousands, except per share amounts)	
<b>INTEREST INCOME:</b>		
Loans	\$ 51,782	\$ 46,566
Interest-earning deposits	2,413	715
Securities – taxable	485	539
<b>Total Interest Income</b>	<b>54,680</b>	<b>47,820</b>
<b>INTEREST EXPENSE:</b>		
Deposits	14,291	8,554
Borrowings	708	924
Financing Lease	35	-
<b>Total Interest Expense</b>	<b>15,034</b>	<b>9,478</b>
<b>Net Interest Income</b>	<b>39,646</b>	<b>38,342</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>727</b>	<b>1,114</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>38,919</b>	<b>37,228</b>
<b>NON-INTEREST INCOME:</b>		
Other loan fees and service charges	1,326	1,131
Gain on disposition of equipment	37	20
Earnings on bank owned life insurance	567	567
Investment advisory fees	466	571
Unrealized gain on equity securities	291	-
Other	132	79
<b>Total Non-Interest Income</b>	<b>2,819</b>	<b>2,368</b>
<b>NON-INTEREST EXPENSES:</b>		
Salaries and employee benefits	13,751	13,121
Occupancy expense	1,771	1,422
Equipment	949	721
Outside data processing	1,599	1,204
Advertising	385	126
Real estate owned expense	155	211
Other	6,198	5,979
<b>Total Non-Interest Expenses</b>	<b>24,808</b>	<b>22,784</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>16,930</b>	<b>16,812</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>3,977</b>	<b>3,785</b>
<b>NET INCOME</b>	<b>\$ 12,953</b>	<b>\$ 13,027</b>
<b>NET INCOME PER COMMON SHARE - BASIC AND DILUTED</b>	<b>\$ 1.08</b>	<b>\$ 1.09</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED</b>	<b>12,026</b>	<b>12,000</b>
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.12</b>	<b>\$ 0.12</b>

See notes to consolidated financial statements.

# *Northeast Community Bancorp, Inc.*

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2019	2018
	(In thousands)	
<b>Net Income</b>	\$ 12,953	\$ 13,027
<b>Other comprehensive income (loss):</b>		
Unrealized loss on securities available-for-sale arising during the year	-	(152)
Defined benefit pension:		
Reclassification adjustments out of accumulated other comprehensive loss:		
Amortization of prior service cost (1)	21	21
Amortization of actuarial loss (1)	16	31
Actuarial gain arising during period	2	84
<b>Total</b>	39	(16)
Income tax effect (2)	(8)	(15)
<b>Total other comprehensive income (loss)</b>	31	(31)
<b>Total Comprehensive Income</b>	<u>\$ 12,984</u>	<u>\$ 12,996</u>

- (1) Amounts are included in salaries and employees benefits in the audited consolidated statements of operations as part of net periodic pension cost. See Note 16 for further information.
- (2) Amounts are included in provision for income taxes in the audited consolidated statements of operations.

*See notes to consolidated financial statements.*



# ***Northeast Community Bancorp, Inc.***

## **Consolidated Statements of Stockholders' Equity** Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
<b>Balance - January 1, 2018</b>	\$ 132	\$ 56,830	(In thousands, except share and per share amounts) \$ (2,073)	\$ 69,280	\$ (7,032)	\$ (240)	\$ 116,897
Net income	-	-	-	13,027	-	-	13,027
Other comprehensive loss	-	-	-	-	-	(31)	(31)
Cash dividend declared (\$0.12 per share)	-	-	-	(566)	-	-	(566)
ESOP shares earned	-	32	259	-	-	-	291
Reclassification of stranded tax effects from Accumulated Other Comprehensive Income	-	-	-	51	-	(51)	-
<b>Balance - December 31, 2018</b>	\$ 132	\$ 56,862	\$ (1,814)	\$ 81,792	\$ (7,032)	\$ (322)	\$ 129,618
Net income	-	-	-	12,953	-	-	12,953
Other comprehensive loss	-	-	-	-	-	31	31
Cash dividend declared (\$0.12 per share)	-	-	-	(788)	-	-	(788)
ESOP shares earned	-	40	259	-	-	-	299
Reclassification adjustment due to adoption of ASU 2016-01	-	-	-	(190)	-	190	-
<b>Balance - December 31, 2019</b>	\$ 132	\$ 56,902	\$ (1,555)	\$ 93,767	\$ (7,032)	\$ (101)	\$ 142,113

# ***Northeast Community Bancorp, Inc.***

## **Consolidated Statements of Cash Flows**

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 12,953	\$ 13,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts, net	7	12
Provision for loan losses	727	1,114
Depreciation	875	757
Net accretion of deferred loan fees and costs	(1,255)	(1,443)
Amortization of intangible assets	41	61
Deferred income tax expense	(256)	418
Unrealized gain recognized on equity securities	(291)	-
Loss on sale of property held for investment	-	117
Earnings on bank owned life insurance	(567)	(567)
(Gain) on dispositions of premises and equipment	(37)	(20)
ESOP compensation expense	299	291
Decrease (Increase) in accrued interest receivable	171	(933)
Decrease (Increase) in other assets	482	(1,656)
Increase in accounts payable and accrued expenses	330	1,447
<b>Net Cash Provided by Operating Activities</b>	<b>13,479</b>	<b>12,625</b>
<b>Cash Flows from Investing Activities:</b>		
Net increase in loans	(9,084)	(43,964)
Proceeds from sale of loan participations	12,810	5,528
Purchase of loans	(3,240)	(4,952)
Principal repayments on securities available-for-sale	12	5
Principal repayments on securities held-to-maturity	1,075	983
Purchase of marketable equity securities	(1,000)	(2,000)
Purchase of securities held-to-maturity	(4,190)	-
Proceeds from sale of real estate owned	-	384
Proceeds from sale of property held for investment	-	400
Proceeds from sale of fixed assets	65	-
Net redemptions of restricted stock	1,012	946
Net maturities of certificate of deposit	-	50
Purchases of premises and equipment	(4,044)	(3,146)
<b>Net Cash Used in Investing Activities</b>	<b>(6,584)</b>	<b>(45,766)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase in deposits	92,062	61,885
Proceeds from FHLB of NY advances	-	46,000
Repayment of FHLB of NY advances	(21,461)	(66,408)
Decrease in advance payments by borrowers for taxes and insurance	(385)	(19)
Cash dividends paid	(788)	(566)
<b>Net Cash Provided by Financing Activities</b>	<b>69,428</b>	<b>40,892</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>76,323</b>	<b>7,751</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>51,352</b>	<b>43,601</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 127,675</b>	<b>\$ 51,352</b>

*See notes to consolidated financial statements.*

# ***Northeast Community Bancorp, Inc.***

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## **Consolidated Statements of Cash Flows (Continued)**

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In Thousands)</b>	
<b>Supplementary Cash Flows Information:</b>		
Income taxes paid	\$ 4,761	\$ 4,292
Interest paid	\$ 15,159	\$ 9,358
<b>Supplementary Disclosure of Non-Cash Investing and Financing Activities:</b>		
Recognition of right of use asset - operating	\$ 1,464	\$ -
Recognition of lease liability - operating	\$ 1,464	\$ -
Recognition of right of use asset - finance	\$ 368	\$ -
Recognition of lease liability - finance	\$ 368	\$ -
Dividends declared and not paid	\$ 360	\$ 141

*See notes to consolidated financial statements.*

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies**

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

#### **Nature of Business**

Northeast Community Bancorp, Inc. (the "Company") is a Federally-chartered corporation that was organized to be a mid-tier holding company for Northeast Community Bank (the "Bank") in conjunction with the Bank's reorganization from a mutual savings bank to a mutual holding company structure on July 5, 2006. The Bank is a New York State-chartered savings bank and completed its conversion from a federally-chartered savings bank effective as of the close of business on June 29, 2012. The Company's primary activity is the ownership and operation of the Bank.

The Bank is principally engaged in the business of attracting deposits and investing those funds into mortgage and commercial loans. When demand for loans is low, the Bank invests in debt securities. Currently the Bank conducts banking operations from its headquarters in White Plains, New York, its three full service branches in New York City, New York, its three full service branches in the Boston, Massachusetts suburban area, its one full service branch in Rockland County, New York, its two full service branch offices in Orange County, New York and its loan production office in New City, New York, gathering deposits and lending from Massachusetts to New Jersey.

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

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

NECB Financial Services Group, LLC ("NECB Financial"), a New York limited liability company and wholly owned subsidiary of the Bank, was formed in the third quarter of 2012 as a complement to Harbor West Financial Planning Wealth Management. NECB Financial has not conducted any business.

The consolidated financial statements include the accounts of the Company, the Bank, NECP, and NECB Financial (collectively the "Company") and have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant inter-company accounts and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates.

The most significant estimate pertains to the allowance for loan losses. The borrowers' abilities to meet contractual obligations and collateral value are the most significant assumptions used to arrive at the estimate. The risks associated with such estimates arise when unforeseen conditions affect the borrowers' abilities to meet the contractual obligations of the loan and result in a decline in the value of the supporting collateral. Such unforeseen changes may have an adverse effect on the consolidated results of operations and financial position of the Company.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Additionally, the Company is exposed to significant changes in market interest rates. Such changes could have an adverse effect on consolidated earnings and consolidated financial position, particularly in those situations in which the maturities or re-pricing of assets are different than the maturities or re-pricing of the supporting liabilities.

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits in other banks, all with original maturities of three months or less.

#### **Certificates of Deposit**

Certificates of deposit are carried at cost which approximates fair value and have maturities of less than one year.

#### **Securities**

The Company classifies its debt securities as held to maturity or available for sale at the time of purchase. Held to maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost (unless there is other than temporary impairment). Available for sale securities are those debt securities which are neither held to maturity securities nor trading securities and are reported at fair value, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders' equity.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are temporary or other-than-temporary. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through other comprehensive income (loss) ("OCI") with offsetting adjustments to the carrying value of the security and the balance of related deferred taxes. Temporary impairments on held to maturity securities are not recorded in the consolidated financial statements; however, information concerning the amount and duration of unrealized losses on held to maturity securities is disclosed.

Other-than-temporary impairments on debt securities that the Company has decided to sell, or will, more likely than not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If either of these conditions regarding the likelihood of sale apply for a debt security, the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. Credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. The Company recognizes credit-related other-than-temporary impairments in earnings. Noncredit-related other-than-temporary impairments on debt securities are recognized in OCI. Premiums and discounts on all securities are amortized/accreted to maturity by use of the level-yield method. Gain or loss on sales of securities is based on the specific identification method.

Equity securities are carried at fair value with changes in fair value reported in income beginning in 2019. For years ended December 31, 2018 and prior, equity securities were classified as available for sale and carried at fair value, with unrealized gains or losses reported as increases or decreases in accumulated other comprehensive income, net of related deferred tax effect.

#### **Loans**

Loans are stated at unpaid principal balances plus net deferred loan origination fees and costs less an allowance for loan losses. Interest on loans receivable is recorded on the accrual basis. An allowance for uncollected interest is established on loans where management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is 90 days or more past due, unless the loans are well secured with a reasonable expectation of collection. When a loan is placed on nonaccrual, an allowance for uncollected interest is established and charged against current income. Thereafter, interest income is not recognized unless the financial condition and payment record of the borrower warrant the recognition of interest income. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Interest on loans that have been restructured is accrued according to the renegotiated terms. Net loan origination fees and costs are deferred and amortized into interest income over the contractual lives of the related loans by use of the level yield method. Past due status of loans is based upon the contractual due date.

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Allowance for Loan Losses**

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

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Risk characteristics associated with the types of loans we underwrite are as follows:

**Multi-family, Mixed-use and Non-residential Real Estate Loans.** Loans secured by multi-family, mixed-use and non-residential real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family, mixed-use and non-residential real estate lending is the current and potential cash flow of the property and the borrower's demonstrated ability to operate that type of property. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

**Commercial and Industrial Loans.** Unlike residential mortgage loans, which are generally made on the basis of a borrower's ability to make repayment from the operation and cash flow from the real property whose value tends to be more ascertainable, commercial and industrial loans are of higher risk and tend to be made on the basis of a borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate due to (1) the increased difficulty and costs of monitoring the loan; and (2) the increased difficulty of working out loan problems. We minimize this risk by concentrating on multi-family and mixed-use projects and by limiting the Company's activity to known borrowers in areas considered unique communities with very strong demand for residential housing.

**Consumer Loans.** We offer personal loans, loans secured by passbook savings accounts, certificates of deposit accounts or statement savings accounts, and overdraft protection for checking accounts. We do not believe these loans represent a significant risk of loss to the Company.

The allowance consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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.

# ***Northeast Community Bancorp, Inc.***

## **Notes to Consolidated Financial Statements**

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### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Allowance for Loan Losses (Continued)**

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 records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

The Company does not evaluate individual 1-4 family residential real estate and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or discounted cash flows.

For loans secured by real estate, estimated fair values are determined primarily through in-house or third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values might be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative factors. These qualitative risk factors include:

1. Changes in policies and procedures in underwriting standards and collections.
2. Changes in economic conditions.
3. Changes in nature and volume of lending.
4. Experience of origination team.
5. Changes in past due loan volume and severity of classified assets.
6. Quality and scope of the loan review system.
7. Debt coverage ratios and loan-to-value averages in existing portfolio.
8. Concentrations of credit.
9. Legal and regulatory issues.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, residential and consumer loans. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that may be inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.

# ***Northeast Community Bancorp, Inc.***

## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Allowance for Loan Losses (Continued)**

Loans classified as doubtful have all the weaknesses inherent in loans classified as substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date at a below market rate. Adversely classified, non-accrual troubled debt restructurings may be returned to accrued status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. All troubled debt restructured loans are classified as impaired.

Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is appropriate as of December 31, 2019.

#### **Concentration of Risk**

The Company's lending activity is concentrated in construction and permanent loans secured by multi-family and non-residential real estate located primarily in the Northeast and Mid-Atlantic regions of the United States. At December 31, 2019, the Company had construction loans located in New York State totaling \$108.5 million in the Village of Spring Valley, \$107.5 million in the Bronx, \$85.4 million in Brooklyn, \$59.8 million in the Village of Kiryas Joel, \$55.0 million in the Village of Monsey, and \$26.0 million in the Town of Monroe.

The Company also had deposits in excess of the FDIC insurance limit at other financial institutions. At December 31, 2019, such deposits totaled \$99.9 million held by the Federal Reserve Bank of New York, \$15.6 million held by the Federal Home Loan Bank of New York, and \$4.4 million held by Atlantic Community Bankers Bank ("ACBB"). Generally, deposits in excess of \$250,000 are not insured by the FDIC.

#### **Premises and Equipment**

Land is stated at cost. Buildings and improvements, leasehold improvements and furnishings and equipment are stated at cost less accumulated depreciation and amortization computed on the straight-line method over the following useful lives:

	<b>Years</b>
Buildings	30 - 50
Building improvements	10 - 50
Leasehold improvements	1 - 15
Furnishings and equipment	3 - 5

Maintenance and repairs are charged to operations in the years incurred.



# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Bank Owned Life Insurance (“BOLI”)**

The Company owns life insurance on the lives of certain of its officers. The cash surrender value is recorded as an asset and the change in cash surrender value is included in non-interest income and is tax-exempt. The BOLI can be liquidated, if necessary, with tax consequences. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

#### **Investments in Restricted Stock**

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. The Company also owns restricted stock in Atlantic Community Bancshares, Inc. (ACBI), holding company of ACBB, a correspondent banker’s bank. These stocks are carried at cost.

#### **Goodwill**

Goodwill at both December 31, 2019 and 2018 totaled \$749,000 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit’s goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded in 2019 and 2018.

#### **Other Intangible Assets**

Other intangible assets were fully amortized at December 31, 2019 and were \$40,000 at December 31, 2018. The intangible assets consisted of the value of customer relationships acquired in a business combination completed by the Company in November 2007. The Company amortized these assets, using the straight-line method, over the remaining useful life of 11.7 years. Amortization expense is included in other non-interest expenses. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset’s remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. The Company reviews intangible assets subject to amortization for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. If intangible assets are found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value. No impairment charges were recorded in 2019 or 2018.

#### **Real Estate Owned**

Real estate owned is carried at the lower of cost or fair value of the related property, as determined by current appraisals less estimated costs to sell. Foreclosed real estate is initially recorded at the fair value of property acquired minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Write-downs on these properties, which occur after the initial transfer from the loan portfolio, are recorded as operating expenses. Costs of holding such properties are charged to expense in the current period. Gains, to the extent allowable, and losses on the disposition of these properties are reflected in current operations.

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Held for Investment**

Land is stated at cost. Buildings and improvements are stated at cost less accumulated depreciation computed on the straight-line method over the useful lives between 30 to 50 years for buildings and 10 to 50 years for building improvements.

#### **Income Taxes**

The Company files a consolidated federal income tax return. Income taxes are allocated to the Company, Bank, NECP, and NECB Financial based upon their respective income or loss included in the consolidated income tax return. The Company, the Bank, NECP, and NECB Financial file combined or separate state and city income tax returns depending on the particular requirements of each jurisdiction.

Federal, state and city income tax expense has been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax base. 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 earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset, which is not more likely than not to be realized.

The Company accounts for uncertainty in income taxes recognized in its consolidated financial statements in accordance with ASC Topic 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2019 and 2018, and has not recognized any liabilities for tax uncertainties as of December 31, 2019 and 2018. The Company's policy is to recognize income tax related interest and penalties in income tax expense; such amounts were not significant during the years ended December 31, 2019 and 2018. The tax years subject to examination by federal, state, and city taxing authorities are 2016 through 2019.

#### **Other Comprehensive Income (Loss)**

The Company records in accumulated other comprehensive income (loss), net of related deferred income taxes, unrealized gains and losses on available for sale securities and the prior service cost and actuarial gains and losses related to the Outside Directors Retirement Plan ("DRP") that have not yet been recognized in expense.

Gains and losses on the sale of securities, if any, are reclassified to non-interest income upon the sale of the related securities or upon the recognition of a security impairment loss and a portion of the prior service cost and actuarial gains and losses of the DRP are reclassified to non-interest expense.

At December 31, 2019, accumulated other comprehensive loss totaled \$101,000 and included \$135,000 in prior service cost and actuarial losses of the DRP net of \$34,000 of related deferred income taxes. At December 31, 2018, accumulated other comprehensive loss totaled \$322,000 and included \$247,000 in unrealized loss on securities available-for-sale and \$174,000 in prior service cost and actuarial losses of the DRP net of \$99,000 of related deferred income taxes.

#### **Net Income Per Common Share**

Basic net income per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating basic net income per common share until they are committed to be released. There were no dilutive common share equivalents at December 31, 2019 or 2018.

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Off-Balance-Sheet Financial Instruments**

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated statement of financial condition when funded.

#### **Subsequent Event**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020 and based on the rapid increase in exposure globally, WHO classified COVID-19 as a global pandemic indicating that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections.

The full impact of COVID-19 continues to evolve as of the date of this report. The outbreak of COVID-19 has, and is anticipated to continue to, adversely impact a broad range of industries in which customers of the Company operate and impair their ability to fulfill their financial obligations to the Company. In addition, the spread of COVID-19 has caused and will likely continue to cause significant disruptions in the U.S. economy and is highly likely to continue to disrupt banking and other financial activities in the areas in which the Company operates. The Company’s business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions and the ability of borrowers to repay their obligations to us on a timely basis or if at all. If the global response to contain COVID-19 escalates or is unsuccessful, the Company could experience a material adverse effect on its business, financial condition, results of operations, and cash flows.

Although the full magnitude of the pandemic is uncertain, management is actively monitoring the impact of the global situation on the banking industry and the Company’s financial condition, liquidity, future results of operations, and workforce. Given the daily evolution of COVID-19 and the global responses to curb the spread of COVID-19, the Company is currently unable to estimate and quantify the effects of this crisis on the Company’s results of operations, financial condition, or liquidity for 2020.

Nevertheless, the adverse economic effects of COVID-19 might lead to an increase in credit risk on the Company’s construction loan, commercial and industrial loan, and multi-family, mixed-use, and non-residential real estate loan portfolios. Likewise, the Company is also monitoring the fluctuations in the markets as it pertains to interest rates and the impact on deposits and fair value of our securities portfolio for other than temporary impairment.

To curtail the spread of COVID-19, the Company has temporarily closed one branch due to its location in an enclosed shopping mall and the lobby, except by appointment only, of the other eight branches. These eight branches continue to service customers via ATMs, drive-up lanes, or night drop boxes.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security (“CARES”) Act in response to the COVID-19 pandemic. This legislation aims at providing relief for individuals and businesses that have been negatively impacted by the COVID-19 pandemic.

The CARES Act includes a provision for the Company to opt out of applying the “troubled-debt restructuring” (“TDR”) accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of (1) December 30, 2020 or (2) 60 days after the President declares a termination of the COVID-19 national emergency are eligible for this relief if the related loans were not more than 30 days past due as of December 31, 2019.

While the Company considers these disruptions to be temporary, if the disruptions continue, this might have an adverse effect on the Company’s results of operations, financial position, and liquidity in 2020. Further, a decrease in the results of future operations might place a strain on the Company’s regulatory capital ratios.

# ***Northeast Community Bancorp, Inc.***

## **Notes to Consolidated Financial Statements**

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### **Note 2 – Mutual Holding Company Reorganization and Regulatory Matters**

On July 5, 2006, the Bank reorganized from a mutual savings bank to a mutual holding company structure. In the reorganization, the Company sold 5,951,250 shares of its common stock to the public and issued 7,273,750 shares of its common stock to Northeast Community Bancorp, MHC (“MHC”). The MHC, which owned 59.6% of the Company’s common stock as of December 31, 2019, must hold at least 50.1% of the Company’s stock so long as the MHC exists.

Due to the conversion of the Bank to a New York State-chartered savings bank on June 29, 2012, the Federal Deposit Insurance Corporation (“FDIC”) and the New York State Department of Financial Services (“NYS”) are now the Bank’s primary regulator replacing the OCC. Under New York State Banking Law, New York state-chartered stock-form savings banks may declare and pay dividends out of their net profits, unless there is an impairment of capital, but approval of the NYS Superintendent is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid. The FDIC also has authority to use its enforcement powers to prohibit a savings bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe and unsound practice.

The Board of Governors of the Federal Reserve System (“Federal Reserve”), the federal regulator of the MHC, has adopted regulations which require the MHC to notify the Federal Reserve if it proposes to waive receipt of dividends from the Company. In addition, the regulations also require that the MHC obtain the approval of a majority of the eligible votes of members of the MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as the MHC that waived dividends prior to December 1, 2009, the Federal Reserve may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. Northeast Community Bancorp, MHC has waived receipt of all dividends from Northeast Community Bancorp in prior years, except when Northeast Community Bancorp, MHC received \$218,000 in 2019 and \$218,000 in 2012 in dividends from Northeast Community Bancorp. Dividends declared by the Company in 2019 and 2018 and waived by the MHC totaled approximately \$655,000 and \$873,000, respectively. As of December 31, 2019, total dividends waived by the MHC aggregated \$10,256,000.

The Company and its subsidiary Bank are subject to regulatory capital requirements promulgated by the federal banking agencies. The Federal Reserve establishes capital requirements, including well capitalized standards, for the consolidated financial holding company, and the FDIC has similar requirements for the Company’s subsidiary bank. Prior to January 1, 2015, quantitative measures were established by regulation to ensure capital adequacy which required the Bank to maintain minimum amounts and ratios of Total, Tier 1 capital (as defined by regulations) to risk-weighted assets (as defined), and of Core tier 1 capital to adjusted total assets (as defined).

Effective January 1, 2015, the Company adopted the Basel III final rule. Based on the Company’s capital levels and statement of condition composition at December 31, 2019, the implementation of the new rule had no material impact on our regulatory capital level or ratios at the Bank level. The new rule established limits at the Company level and increased the minimum Tier 1 capital to risk based assets requirement from 4% to 6% of risk-weighted assets; established a new common equity Tier 1 capital; and assigned a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The new rule has a capital conservation buffer requirement that was phased in at a rate of 0.625% annually beginning January 1, 2016 through January 1, 2019, when full capital conservation buffer requirement of 2.50% became effective. Management believes that the Bank met all capital adequacy requirements to which it was subject as of December 31, 2019 and 2018.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 2 – Mutual Holding Company Reorganization and Regulatory Matters (Continued)

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

	Actual		Regulatory Capital Requirements					
			Minimum Capital Adequacy (1)		For Classification as Well-Capitalized			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
(Dollars in Thousands)								
<b>As of December 31, 2019:</b>								
Total capital (to risk-weighted assets)	\$ 130,408	14.56%	\$ ≥ 71,675	≥8.00 %	\$ ≥ 89,594	≥10.00 %		
Tier 1 capital (to risk-weighted assets)	125,815	14.04	≥ 53,757	≥6.00	≥ 71,675	≥ 8.00		
Common equity tier 1 capital (to risk-weighted assets)	125,815	14.04	≥ 40,317	≥4.50	≥ 58,236	≥ 6.50		
Core (Tier 1) capital (to adjusted total assets)	125,815	12.68	≥ 39,688	≥4.00	≥ 49,611	≥ 5.00		
<b>As of December 31, 2018:</b>								
Total capital (to risk-weighted assets)	\$ 117,650	13.44%	\$ ≥ 70,053	≥8.00 %	\$ ≥ 87,566	≥10.00 %		
Tier 1 capital (to risk-weighted assets)	113,484	12.96	≥ 52,539	≥6.00	≥ 70,053	≥ 8.00		
Common equity tier 1 capital (to risk-weighted assets)	113,484	12.96	≥ 39,405	≥4.50	≥ 56,918	≥ 6.50		
Core (Tier 1) capital (to adjusted total assets)	113,484	13.27	≥ 34,207	≥4.00	≥ 42,758	≥ 5.00		

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

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

### Note 3 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	December 31,	
	2019	2018
(In Thousands)		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 73,495	\$ 80,875
Construction loans in process	269,976	292,114
Stand-by letters of credit	5,799	6,463
Commitments to fund unused lines of credit:		
Commercial and industrial lines	85,591	78,038
Multi-family real estate equity lines	-	462
Consumer lines	99	102
	<u>\$ 434,960</u>	<u>\$ 458,054</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 3 - Financial Instruments with Off-Balance Sheet Risk (Continued)

Commitments to extend credit are legally binding agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the borrower.

### Note 4 – Equity Securities

The following table is the schedule of Equity Securities at December 31, 2019.

	<u>December 31,</u> <u>2019</u>
	(In Thousands)
Equity Securities, at Fair Value	<u>\$ 10,044</u>

The following is a summary of unrealized gains recognized in net income on equity securities during the year ended December 31, 2019:

	<u>December 31,</u> <u>2019</u>
	(In Thousands)
Unrealized net gain recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 291</u>

### Note 5 – Securities Available-for-Sale

	<u>December 31, 2019</u>			
	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
	(In Thousands)			
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	\$ 4	\$ -	\$ -	\$ 4
Federal National Mortgage Association	1	-	-	1
	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>
	<u>December 31, 2018</u>			
	(In Thousands)			
Marketable equity securities:				
Mutual funds	<u>\$ 9,000</u>	<u>\$ -</u>	<u>\$ 247</u>	<u>\$ 8,753</u>
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	\$ 16	\$ -	\$ -	\$ 16
Federal National Mortgage Association	1	-	-	1
	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17</u>
	<u>\$ 9,017</u>	<u>\$ -</u>	<u>\$ 247</u>	<u>\$ 8,770</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 5 – Securities Available-for-Sale (Continued)

There were no sales of securities available-for-sale during the years ended December 31, 2019 and 2018.

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

	December 31, 2019	
	Amortized Cost	Fair Value
	(In Thousands)	
Due after one year but with five years	\$ 3	\$ 3
Due after five but within ten years	1	1
Due after ten years	1	1
	<u>\$ 5</u>	<u>\$ 5</u>

The maturities shown above are based upon contractual final maturity. Actual maturities will differ from contractual maturities due to scheduled monthly repayments and due to the underlying borrowers having the right to prepay their obligations. At December 31, 2019, the Company had no unrealized loss. At December 31, 2018, the age of unrealized losses and the fair value of related securities available-for-sale were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
<b>December 31, 2018:</b>						
Mutual Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,753</u>	<u>\$ 247</u>	<u>\$ 8,753</u>	<u>\$ 247</u>

Management concluded that the unrealized losses reflected above for the mutual funds were temporary in nature since they were related primarily to market interest rates and not related to the underlying credit quality of the mutual funds. Additionally, the Company has the ability and intent to hold these mutual funds for the time necessary to recover the amortized cost.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 6 - Securities Held-to-Maturity

	December 31, 2019			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
(In Thousands)				
Municipal Bonds	\$ 4,190	\$ -	\$ -	\$ 4,190
Mortgage-backed securities - residential:				
Government National Mortgage Association	\$ 1,416	\$ 28	\$ -	\$ 1,444
Federal Home Loan Mortgage Corporation	66	1	-	67
Federal National Mortgage Association	1,563	13	-	1,576
Collateralized mortgage obligations - GSE	1,914	24	-	1,938
	<u>\$ 4,959</u>	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ 5,025</u>
	<u>\$ 9,149</u>	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ 9,215</u>

	December 31, 2018			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
(In Thousands)				
Municipal Bonds	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities - residential:				
Government National Mortgage Association	\$ 1,962	\$ 43	\$ -	\$ 2,005
Federal Home Loan Mortgage Corporation	74	1	-	75
Federal National Mortgage Association	1,802	-	47	1,755
Collateralized mortgage obligations - GSE	2,203	3	79	2,127
	<u>6,041</u>	<u>47</u>	<u>126</u>	<u>5,962</u>
	<u>\$ 6,041</u>	<u>\$ 47</u>	<u>\$ 126</u>	<u>\$ 5,962</u>

Contractual final maturities of mortgage-backed securities and municipal bonds were as follows at December 31, 2019:

	2019	
	Amortized Cost	Fair Value
(In Thousands)		
Due after one but within five years	\$ 4,234	\$ 4,234
Due after five but within ten years	13	13
Due after ten years	4,902	4,968
	<u>\$ 9,149</u>	<u>\$ 9,215</u>

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



# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 6 - Securities Held-to-Maturity (Continued)

The age of unrealized losses and the fair value of related securities held-to-maturity were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In Thousands)						
<b>December 31, 2019:</b>						
Federal National Mortgage Association	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collateralized mortgage obligations - GSE	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In Thousands)						
<b>December 31, 2018:</b>						
Federal National Mortgage Association	\$ 1,724	\$ 47	\$ -	\$ -	\$ 1,724	\$ 47
Collateralized mortgage obligations - GSE	-	-	1,781	79	1,781	79
	<u>\$ 1,724</u>	<u>\$ 47</u>	<u>\$ 1,781</u>	<u>\$ 79</u>	<u>\$ 3,505</u>	<u>\$ 126</u>

At December 31, 2019, there were no investment securities with unrealized loss. At December 31, 2018, two mortgage-backed securities and one mortgage-backed security, respectively, had unrealized losses. Management concluded that the unrealized losses reflected above for the mortgage-backed securities were temporary in nature since they were related primarily to market interest rates and not related to the underlying credit quality of the issuer of the securities. Additionally, the Company has the ability and intent to hold these securities for the time necessary to recover the amortized cost.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 7 - Loans Receivable and the Allowance for Loan Losses

	December 31,	
	2019	2018
	(In Thousands)	
Residential real estate:		
One-to-four family	\$ 9,188	\$ 12,839
Multi-family	98,751	138,368
Mixed-use	32,460	45,536
Total residential real estate	140,399	196,743
Non-residential real estate	66,894	67,326
Construction	465,379	415,066
Commercial and industrial	79,765	72,882
Consumer	51	76
<b>Total Loans</b>	752,488	752,093
Allowance for loan losses	(4,611)	(4,196)
Deferred loan (fees) costs, net	5	(56)
	<u>\$ 747,882</u>	<u>\$ 747,841</u>

Loans serviced for the benefit of others totaled approximately \$20,969,000 and \$30,363,000 at December 31, 2019 and 2018, respectively. The value of mortgage servicing rights was not material at December 31, 2019 and 2018.

The Company had no loans to related parties at December 31, 2019 and 2018. In addition, the Company did not originate any loans to related parties in 2019 and 2018.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

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

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2019:

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial and Industrial	Consumer	Overdraft	Unallocated	Total
(In Thousands)								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 822	\$ 431	\$ 2,395	\$ 522	\$ -	\$ 26	\$ -	\$ 4,196
Charge-offs	-	(67)	-	(96)	-	(157)	-	(320)
Recoveries	3	-	-	-	-	5	-	8
Provision (Credit)	(220)	139	297	140	-	197	174	727
Ending balance	<u>\$ 605</u>	<u>\$ 503</u>	<u>\$ 2,692</u>	<u>\$ 566</u>	<u>\$ -</u>	<u>\$ 71</u>	<u>\$ 174</u>	<u>\$ 4,611</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 605</u>	<u>\$ 503</u>	<u>\$ 2,692</u>	<u>\$ 566</u>	<u>\$ -</u>	<u>\$ 71</u>	<u>\$ 174</u>	<u>\$ 4,611</u>
<b>Loans receivable:</b>								
Ending balance	<u>\$ 140,399</u>	<u>\$ 66,894</u>	<u>\$ 465,379</u>	<u>\$ 79,765</u>	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,488</u>
Ending balance: individually evaluated for impairment	<u>\$ 2,730</u>	<u>\$ 4,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,010</u>
Ending balance: collectively evaluated for impairment	<u>\$ 137,669</u>	<u>\$ 62,614</u>	<u>\$ 465,379</u>	<u>\$ 79,765</u>	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745,478</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

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

The following is an analysis of the allowance for loan losses and related information concerning loan balances:

As of and For the Year Ended December 31, 2018:

	Residential Real Estate	Non-residential Real Estate	Construction	Commercial and Industrial	Consumer	Overdraft	Unallocated	Total
(In Thousands)								
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 997	\$ 443	\$ 1,064	\$ 1,002	\$ -	\$ -	\$ -	\$ 3,506
Charge-offs	(10)	-	-	(3,126)	-	-	-	(3,136)
Recoveries	12	-	-	2,700	-	-	-	2,712
Provision (Credit)	(177)	(12)	1,331	(54)	-	26	-	1,114
Ending balance	<u>\$ 822</u>	<u>\$ 431</u>	<u>\$ 2,395</u>	<u>\$ 522</u>	<u>\$ -</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 4,196</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 822</u>	<u>\$ 431</u>	<u>\$ 2,395</u>	<u>\$ 522</u>	<u>\$ -</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 4,196</u>
<b>Loans receivable:</b>								
Ending balance	<u>\$ 196,743</u>	<u>\$ 67,326</u>	<u>\$ 415,066</u>	<u>\$ 72,882</u>	<u>\$ 76</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,093</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,762</u>
Ending balance: collectively evaluated for impairment	<u>\$ 194,981</u>	<u>\$ 67,326</u>	<u>\$ 415,066</u>	<u>\$ 72,882</u>	<u>\$ 76</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 750,331</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

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

The following is an analysis of our impaired loans.

#### As of and for the Year Ended December 31, 2019:

<u>2019</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
(In Thousands)					
With no related allowance recorded:					
Residential real estate-Multi-family	\$ 2,730	\$ 2,730	\$ -	\$ 2,076	\$ 96
Non-residential real estate	4,280	4,280	-	1,872	31
Construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
	<u>7,010</u>	<u>7,010</u>	<u>-</u>	<u>3,948</u>	<u>127</u>
With an allowance recorded	-	-	-	-	-
Total:					
Residential real estate-Multi-family	2,730	2,730	-	2,076	96
Non-residential real estate	4,280	4,280	-	1,872	31
Construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
	<u>\$ 7,010</u>	<u>\$ 7,010</u>	<u>\$ -</u>	<u>\$ 3,948</u>	<u>\$ 127</u>

#### As of and for the Year Ended December 31, 2018:

<u>2018</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
(In Thousands)					
With no related allowance recorded:					
Residential real estate-Multi-family	\$ 1,762	\$ 1,762	\$ -	\$ 1,691	\$ -
Non-residential real estate	-	-	-	-	-
Construction	-	-	-	-	-
Commercial and industrial	-	-	-	1,841	-
	<u>1,762</u>	<u>1,762</u>	<u>-</u>	<u>3,532</u>	<u>-</u>
With an allowance recorded	-	-	-	-	-
Total:					
Residential real estate-Multi-family	1,762	1,762	-	1,691	-
Non-residential real estate	-	-	-	-	-
Construction	-	-	-	-	-
Commercial and industrial	-	-	-	1,841	-
	<u>\$ 1,762</u>	<u>\$ 1,762</u>	<u>\$ -</u>	<u>\$ 3,532</u>	<u>\$ -</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

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

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

#### Loans Receivable on Nonaccrual Status as of December 31:

	2019	2018
	(In Thousands)	
Residential real estate:		
Mixed-use	\$ 415	\$ 1,762
Commercial and industrial loans	3,540	-
	<u>\$ 3,955</u>	<u>\$ 1,762</u>

On non-accrual loans, the Company did not recognized any interest income during the year ended December 31, 2019 and 2018. Interest income that would have been recorded had the loans been on accrual status would have amounted to approximately \$317,000 and \$75,000 for the years ended December 31, 2019 and 2018, respectively. The Company is not committed to lend additional funds to borrowers whose loans have been placed on non-accrual status. The following tables provide information about delinquencies in our loan portfolio at the dates indicated.

#### Age Analysis of Past Due Loans as of December 31, 2019:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	\$ -	\$ -	\$ -	\$ -	\$ 9,188	\$ 9,188	\$ -
Multi-family	-	-	-	-	98,751	98,751	-
Mixed-use	-	-	415	415	32,045	32,460	-
Non-residential real estate	-	-	3,540	3,540	63,354	66,894	-
Construction loans	-	-	-	-	465,379	465,379	-
Commercial and industrial loans	-	-	-	-	79,765	79,765	-
Consumer	-	-	-	-	51	51	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,955</u>	<u>\$ 3,955</u>	<u>\$ 748,533</u>	<u>\$ 752,488</u>	<u>\$ -</u>

#### Age Analysis of Past Due Loans as of December 31, 2018:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	\$ -	\$ -	\$ -	\$ -	\$ 12,839	\$ 12,839	\$ -
Multi-family	-	-	-	-	138,368	138,368	-
Mixed-use	-	-	1,762	1,762	43,774	45,536	-
Non-residential real estate	-	3,502	-	3,502	63,824	67,326	-
Construction loans	-	-	-	-	415,066	415,066	-
Commercial and industrial loans	-	-	97	97	72,785	72,882	97
Consumer	-	-	-	-	76	76	-
	<u>\$ -</u>	<u>\$ 3,502</u>	<u>\$ 1,859</u>	<u>\$ 5,361</u>	<u>\$ 746,732</u>	<u>\$ 752,093</u>	<u>\$ 97</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

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

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

#### Credit Risk Profile by Internally Assigned Grade as of December 31, 2019:

	<u>Residential Real Estate</u>	<u>Non-residential Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
(In Thousands)						
Grade:						
Pass	\$ 139,984	\$ 63,354	\$ 465,379	\$ 79,417	\$ 51	\$ 748,185
Special Mention	-	-	-	348	-	348
Substandard	415	3,540	-	-	-	3,955
Doubtful	-	-	-	-	-	-
	<u>\$ 140,399</u>	<u>\$ 66,894</u>	<u>\$ 465,379</u>	<u>\$ 79,765</u>	<u>\$ 51</u>	<u>\$ 752,488</u>

#### Credit Risk Profile by Internally Assigned Grade as of December 31, 2018:

	<u>Residential Real Estate</u>	<u>Non-residential Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
(In Thousands)						
Grade:						
Pass	\$ 194,981	\$ 67,326	\$ 415,066	\$ 72,395	\$ 76	\$ 749,844
Special Mention	-	-	-	390	-	390
Substandard	1,762	-	-	97	-	1,859
Doubtful	-	-	-	-	-	-
	<u>\$ 196,743</u>	<u>\$ 67,326</u>	<u>\$ 415,066</u>	<u>\$ 72,882</u>	<u>\$ 76</u>	<u>\$ 752,093</u>

There were no loans modified that were deemed troubled debt restructuring during the years ended December 31, 2019 and 2018. During the years ended December 31, 2019 and 2018, none of the loans that were modified during the previous twelve months had defaulted.

### Note 8 - Premises and Equipment, Net

Premises and equipment at December 31 are summarized as follows:

	<u>2019</u>	<u>2018</u>
(In Thousands)		
Land	\$ 3,872	\$ 2,128
Buildings and improvements	16,698	11,635
Leasehold improvements	1,653	1,578
Furnishings and equipment	<u>6,767</u>	<u>9,780</u>
	28,990	25,121
Accumulated depreciation and amortization	<u>(10,366)</u>	<u>(9,675)</u>
	<u>\$ 18,624</u>	<u>\$ 15,446</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 9 - Accrued Interest Receivable, Net

Accrued interest receivable, net at December 31 is summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Loans receivable	\$ 4,363	\$ 4,332
Securities	<u>22</u>	<u>12</u>
	4,385	4,344
Allowance for uncollected interest	<u>(430)</u>	<u>(218)</u>
	<u>\$ 3,955</u>	<u>\$ 4,126</u>

### Note 10 - Goodwill and Intangible Assets

Goodwill and intangible assets at December 31 are summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Goodwill	\$ 749	\$ 749
Customer relationships intangible	<u>-</u>	<u>40</u>
	<u>\$ 749</u>	<u>\$ 789</u>

The Company did not identify any impairment of goodwill during the year ended December 31, 2019. In addition, the Company did not identify any impairment of goodwill and intangible assets during the year ended December 31, 2018. Amortization expense of customer relationships intangible was \$40,000 and \$61,000 for the years ended December 31, 2019 and 2018, respectively. The customer relationships intangible of \$40,000 was fully amortized in 2019.

### Note 11 - Real Estate Owned ("REO")

The Company owned one foreclosed property valued at approximately \$2,164,000 at December 31, 2019 and 2018 consisting of an office building located in Pennsylvania. The property was acquired through foreclosure in December 2014.

Further declines in real estate values may result in impairment charges in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. REO expense, including loss on sales and write-downs, amounted to \$155,000 and \$211,000 during the years ended December 31, 2019 and 2018.

### Note 12- Property Held For Investment

Property held for investment at December 31 are summarized as follows:

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Land	\$ 500	\$ 500
Buildings and improvements	<u>1,442</u>	<u>1,442</u>
	1,942	1,942
Accumulated depreciation and amortization	<u>(387)</u>	<u>(350)</u>
	<u>\$ 1,555</u>	<u>\$ 1,592</u>



# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 12– Property Held For Investment (Continued)

The Company owned one property at December 31, 2019 and 2018 consisting of a former branch office located in Plymouth, Massachusetts.

### Note 13 – Deposits

	December 31,			
	2019		2018	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in Thousands)			
Demand deposits:				
Non-interest bearing	\$ 140,001	0.00 %	\$ 108,353	0.00 %
NOW and money market	116,613	1.21 %	105,643	1.25 %
Total	<u>256,614</u>	0.55 %	<u>213,996</u>	0.62 %
Savings accounts	<u>98,283</u>	0.98 %	<u>77,903</u>	0.67 %
Certificates of deposit maturing in:				
One year or less	348,363	2.63 %	290,085	2.35 %
After one to two years	43,454	2.59 %	79,948	2.38 %
After two to three years	18,741	2.51 %	8,558	2.14 %
After three to four years	4,992	2.91 %	12,878	2.28 %
After four years	<u>8,711</u>	2.87 %	<u>3,728</u>	2.80 %
Total	<u>424,261</u>	2.63 %	<u>395,197</u>	2.36 %
	<u>\$ 779,158</u>	1.73 %	<u>\$ 687,096</u>	1.62 %

As of December 31, 2019 and 2018, certificates of deposits equal to or in excess of \$250,000 totaled approximately \$170,576,000 and \$116,241,000, respectively.

The aggregate amount of brokered deposits was \$78.2 million and \$26.1 million as of December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company also had \$5.6 million and \$2.1 million, respectively, in Insured Cash Sweep (“ICS”) reciprocal money market deposits, which are no longer considered fully-insured brokered deposits as defined in the FDIC call report instructions.

The ICS money market deposits were obtained from five retail depositors and then transferred into the ICS Network in order to obtain full FDIC insurance coverage for our customers. These types of deposits are known in the ICS Network as reciprocal deposits, which the Company considers as core deposits and not brokered deposits.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 13 – Deposits (Continued)

Interest expense on deposits consists of the following:

	Years Ended December 31,	
	2019	2018
	(In Thousands)	
Demand deposits	\$ 1,637	\$ 1,334
Savings accounts	832	495
Certificates of deposit	11,822	6,725
	<u>\$ 14,291</u>	<u>\$ 8,554</u>

### Note 14 – Federal Home Loan Bank of New York (“FHLB”) Advances

	December 31,			
	2019		2018	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in Thousands)			
Advances maturing in:				
One year or less	\$ -	- %	\$ 42,461	1.87 %
After two to three years	7,000	2.79 %	-	- %
After three to four years	7,000	2.83 %	-	- %
After four to five years	7,000	2.86 %	-	- %
	<u>\$ 21,000</u>	2.83 %	<u>\$ 42,461</u>	1.87 %

At December 31, 2019, none of the above advances were subject to early call or redemption features. At December 31, 2019, the advances were secured by a pledge of the Company’s investment in the capital stock of the FHLB and a blanket assignment of the Company’s otherwise unpledged qualifying mortgage loans. At December 31, 2019, the Company had the ability to borrow \$80.3 million, net of \$21.0 million in outstanding advances, from the FHLB and \$8.0 million from ACBB.

### Note 15 - Income Taxes

The Bank qualifies as a savings institution under the provisions of the Internal Revenue Code and was, therefore, prior to January 1, 1996, permitted to deduct from taxable income an allowance for bad debts based upon eight percent of taxable income before such deduction, less certain adjustments. Retained earnings at December 31, 2019 and 2018, include approximately \$4.1 million of such bad debt deductions which, in accordance with U.S. GAAP is considered a permanent difference between the book and income tax basis of loans receivable, and for which deferred income taxes have not been provided. If such amount is used for purposes other than for bad debt losses, including distributions in liquidation, it will be subject to income tax at the then current rate.

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 15 - Income Taxes (Continued)

The components of provision for income taxes are summarized as follows:

	Years Ended December 31,	
	2019	2018
	(In Thousands)	
Current tax expense	\$ 4,233	\$ 3,367
Deferred tax expense	(256)	418
	<u>\$ 3,977</u>	<u>\$ 3,785</u>

The following table presents a reconciliation between the reported income taxes and the income taxes, which would be computed by applying the existing federal income tax rate of 21% for 2019 and 2018 to income before taxes:

	Years Ended December 31,	
	2019	2018
	(Dollars In Thousands)	
Federal income tax at statutory rates	\$ 3,555	\$ 3,531
State and city tax, net of federal income tax effect	443	275
Non-taxable income on bank owned life insurance	(119)	(119)
Change in valuation allowance against deferred assets	72	368
Other	26	(270)
	<u>\$ 3,977</u>	<u>\$ 3,785</u>
Effective Income Tax Rate	<u>23.5 %</u>	<u>22.5 %</u>

The tax effects of significant items comprising the net deferred tax asset are as follows:

	December 31,	
	2019	2018
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,322	\$ 1,208
State net operating loss carryforwards	425	428
Reserve for uncollected interest	122	62
Depreciation	86	86
Benefit plans	1,623	1,530
Accumulated other comprehensive loss - DRP	34	42
Unrealized loss on available-for-sale securities	-	57
<b>Total Deferred Tax Assets</b>	<u>3,612</u>	<u>3,413</u>
Deferred tax liability:		
Goodwill	138	114
Other	183	271
<b>Total Deferred Tax Liabilities</b>	<u>321</u>	<u>385</u>
<b>Valuation Allowance - State Deferred Tax Assets</b>	<u>(1,053)</u>	<u>(981)</u>
<b>Net Deferred Tax Assets Included in Other Assets</b>	<u>\$ 2,238</u>	<u>\$ 2,047</u>

The Company has state net operating loss (NOL) carryforwards totaling \$5,700,000 at December 31, 2019 that are available to be carried forward to future years. These NOL carryforwards will expire in 2039 if not fully utilized.

# ***Northeast Community Bancorp, Inc.***

## **Notes to Consolidated Financial Statements**

### **Note 16 - Other Non-Interest Expenses**

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

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In Thousands)</b>	
Other	\$ 1,768	\$ 2,152
Consulting expense	975	728
Service contracts	874	652
Directors compensation	529	548
Legal fees	316	490
Telephone	531	482
Audit and accounting	432	360
Director, officer, and employee expense	404	327
Insurance	317	288
Recruiting expense	160	199
Office supplies and stationary	133	116
Loan origination cost deferral	(241)	(363)
	<u>\$ 6,198</u>	<u>\$ 5,979</u>

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 17 - Benefits Plans

#### Outside Director Retirement Plan (“DRP”)

The DRP is an unfunded non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The following table sets forth the funded status of the DRP and components of net pension periodic expense measured as of December 31:

	Years Ended December 31,	
	2019	2018
	(Dollars In Thousands)	
Projected benefit obligation – beginning	\$ 1,789	\$ 1,764
Service cost	99	98
Interest cost	69	61
Actuarial (gain) loss	(2)	(85)
Prior service cost	-	1
Benefits Paid	(104)	(50)
Projected benefit obligation – ending	<u>\$ 1,851</u>	<u>\$ 1,789</u>
Funded status – accrued liability included in accounts payable and accrued expenses	<u>\$ 1,851</u>	<u>\$ 1,789</u>
Accumulated benefit obligation	<u>\$ 1,776</u>	<u>\$ 1,722</u>
Discount rate	3.99 %	3.69 %
Salary increase rate	2.00 %	2.00 %

	Years Ended December 31,	
	2019	2018
	(Dollars In Thousands)	
Net periodic pension expense:		
Service cost	\$ 99	\$ 98
Interest cost	69	61
Actuarial loss recognized	16	31
Prior service cost recognized	21	21
Total net periodic pension expense included in other non-interest expenses	<u>\$ 205</u>	<u>\$ 211</u>
Discount rate	3.99 %	3.69 %
Salary increase rate	2.00 %	2.00 %

Benefit payments, which reflect expected future service as appropriate, are expected to be paid for the years ending December 31 as follows (in thousands):

2020	\$ 152
2021	200
2022	200
2023	200
2024	200
2025 to 2029	1,006

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 17 - Benefits Plans (Continued)**

#### **Supplemental Executive Retirement Plan (“SERP”)**

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

During the years ended December 31, 2019 and 2018, expenses of \$209,000 and \$325,000, respectively, were recorded for this plan and are reflected in the Consolidated Statements of Operations under Salaries and Employee Benefits. At December 31, 2019 and 2018, a liability for this plan of \$3,020,000 and \$2,811,000, respectively, is included in the Consolidated Statements of Financial Condition under Accounts Payable and Accrued Expenses.

#### **401(k) Plan**

The Company maintains a 401(k) plan for all eligible employees. Participants are permitted to contribute from 1% to 15% of their annual compensation up to the maximum permitted under the Internal Revenue Code. The Company provided no matching contribution in 2019 and 2018.

#### **Employee Stock Ownership Plan (“ESOP”)**

In conjunction with Company’s initial public stock offering, the Bank established an ESOP for all eligible employees (substantially all full-time employees). The ESOP borrowed \$5,184,200 from the Company and used those funds to acquire 518,420 shares of Company common stock at \$10.00 per share. The loan from the Company carries an interest rate of 8.25% and is repayable in twenty annual installments through 2025. Each year, the Bank makes discretionary contributions to the ESOP equal to the principal and interest payment required on the loan from the Company. The ESOP may further pay down the principal balance of the loan by using dividends paid, if any, on the shares of Company common stock it owns. The balance remaining on the ESOP loan was \$2,372,000 and \$2,669,000 at December 31, 2019 and 2018, respectively.

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

ESOP shares initially pledged as collateral were recorded as unearned ESOP shares in the stockholders’ equity section of the consolidated statement of financial condition. Thereafter, on a monthly basis over a 240 month period, approximately 2,160 shares are committed to be released and compensation expense is recorded equal to the shares committed to be released multiplied by the average closing price of the Company’s stock during that month. ESOP expense during the years ended December 31, 2019 and 2018, totaled approximately \$299,000 and \$291,000, respectively. Dividends on unallocated shares, which totaled approximately \$23,000 and \$25,000 during 2019 and 2018, respectively, are recorded as a reduction of the ESOP loan. Dividends on allocated shares, which totaled approximately \$40,000 and \$37,000 during 2019 and 2018, respectively, are charged to retained earnings.

# ***Northeast Community Bancorp, Inc.***

## **Notes to Consolidated Financial Statements**

### **Note 17 - Benefits Plans (Continued)**

#### **Employee Stock Ownership Plan (“ESOP”) (Continued)**

ESOP shares are summarized as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Allocated shares	336,973	311,052
Shares committed to be released	25,921	25,921
Unearned shares	155,526	181,447
<b>Total ESOP Shares</b>	518,420	518,420
Less allocated shares distributed to former or retired employees	(76,509)	(76,509)
<b>Total ESOP Shares Held by Trustee</b>	441,911	441,911
Fair value of unearned shares	<u>\$ 1,866,312</u>	<u>\$ 2,014,000</u>

### **Note 18 - Leases**

The Company adopted ASU 2016-02 on January 1, 2019. As a result of the adoption, the Company recognized operating and financing lease assets and corresponding lease liabilities related to office facilities and retail branches. The operating and financing lease assets represent the Company’s right to use an underlying asset for the lease term, and the lease liability represents the Company’s obligation to make lease payments over the lease term.

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

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 18 – Leases (Continued)

At December 31, 2019, the quantitative data relates to the Company's leases are as follows (in thousands):

	<u>December 31,</u> <u>2019</u>
<b>Finance Lease Amounts:</b>	
ROU asset	\$ 366
Lease liability	\$ 424
<b>Operating Lease Amounts:</b>	
ROU assets	\$ 1,150
Lease liabilities	\$ 1,156
Finance Lease Cost	
Amortization of ROU asset	\$ 4
Interest on lease liability	\$ 35
Operating Lease Costs	\$ 326
Cash paid for amounts included in the measurement of lease liabilities	
Finance lease	\$ (35)
Operating leases	\$ 300
Weighted-average remaining lease term	
Finance lease	97 years
Operating leases	3.06 years
Weighted-average discount rate	
Finance lease	9.50%
Operating leases	2.35%

Maturities of lease liabilities at December 31, 2019 are as follows:

	<u>Operating</u>	<u>Finance Lease</u>
2020	\$ 414	\$ 30
2021	389	30
2022	322	30
2023	75	30
2024	-	30
Thereafter	-	4,212
Total lease payments	\$ 1,200	\$ 4,362
Interest	(44)	(3,938)
Lease liability	<u>\$ 1,156</u>	<u>\$ 424</u>



# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 19 – Contingencies**

The Company and Bank are also subject to claims and litigation that arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company and Bank in connection with such claims and litigation, it is the opinion of management that the disposition or ultimate determination of such claims and litigation will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

### **Note 20 - Fair Value Disclosures**

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

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

- Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2:* Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 20 - Fair Value Disclosures (Continued)

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
<b>December 31, 2019:</b>				
(In Thousands)				
Recurring:				
Marketable equity securities:				
Mutual funds	\$ 10,044	\$ 10,044	\$ -	\$ -
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	4	-	4	-
Federal National Mortgage Association	1	-	1	-
Total	\$ 10,049	\$ 10,044	\$ 5	\$ -
Nonrecurring:				
Real estate owned	\$ 2,164	\$ -	\$ -	\$ 2,164
<b>December 31, 2018:</b>				
(In Thousands)				
Recurring:				
Marketable equity securities:				
Mutual funds	\$ 8,753	\$ 8,753	\$ -	\$ -
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	16	-	16	-
Federal National Mortgage Association	1	-	1	-
Total	\$ 8,770	\$ 8,753	\$ 17	\$ -
Nonrecurring:				
Real estate owned	\$ 2,164	\$ -	\$ -	\$ 2,164

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

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

# ***Northeast Community Bancorp, Inc.***

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## **Notes to Consolidated Financial Statements**

### **Note 20 - Fair Value Disclosures (Continued)**

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2019 and 2018:

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

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

#### **Securities**

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

#### **Loans**

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

For performing loans, fair value is calculated by discounting scheduled future cash flows through estimated maturity using a market rate that reflects the credit and interest-rate risks inherent in the loans. The discounted value of the cash flows is reduced by a credit risk adjustment based on internal loan classifications.

For non-performing loans, fair value is calculated by discounting the estimated future cash flows from the remaining carrying value at a market rate.

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

#### **Investments in Restricted Stocks**

The carrying amount of the FHLB of New York and ACBI stocks approximates their fair value and considers the limited marketability of these securities.

#### **Deposit Liabilities**

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

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 20 - Fair Value Disclosures (Continued)

#### FHLB of New York Advances

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

#### Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At December 31, 2019 and 2018, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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

(In thousands)	Carrying Amount	Fair Value	Fair Value at December 31, 2019		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 127,675	\$ 127,675	\$ -	\$ 127,675	\$ -
Certificates of deposit	100	100	-	100	-
Marketable equity securities	10,044	10,044	10,044	-	-
Securities available for sale	5	5	-	5	-
Securities held to maturity	9,149	9,215	-	9,215	-
Loans receivable	747,882	753,267	-	-	753,267
Investments in restricted stock	1,348	1,348	-	1,348	-
Accrued interest receivable	3,955	3,955	-	3,955	-
<b>Financial Liabilities</b>					
Deposits	779,158	773,379	-	773,379	-
FHLB of New York advances	21,000	21,662	-	21,662	-
Accrued interest payable	1	1	-	1	-

# Northeast Community Bancorp, Inc.

## Notes to Consolidated Financial Statements

### Note 20 - Fair Value Disclosures (Continued)

(In thousands)	Carrying Amount	Fair Value	Fair Value at December 31, 2018		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>					
Cash and cash equivalents	\$ 51,352	\$ 51,352	\$ -	\$ 51,352	\$ -
Certificates of deposit	100	100	-	100	-
Marketable equity securities	8,753	8,753	8,753	-	-
Securities available for sale	17	17	-	17	-
Securities held to maturity	6,041	5,962	-	5,962	-
Loans receivable	747,841	745,331	-	-	745,331
Investments in restricted stock	2,360	2,360	-	2,360	-
Accrued interest receivable	4,126	4,126	-	4,126	-
<b>Financial Liabilities</b>					
Deposits	687,096	671,927	-	671,927	-
FHLB of New York advances	42,461	42,412	-	42,412	-
Accrued interest payable	126	126	-	126	-

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**NORTHEAST COMMUNITY BANCORP, INC.**

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**Board of Directors**

Kenneth A. Martinek

Jose M. Collazo

Diane B. Cavanaugh

Kenneth H. Thomas

Charles M. Cirillo

John F. McKenzie

Eugene M. Magier

Kevin P. O'Malley

Charles A. Martinek

**Executive Officers of Northeast Community Bancorp, Inc.**

Kenneth A. Martinek  
Chairman of the Board and Chief Executive Officer

Jose M. Collazo  
President and Chief Operating Officer

Donald S. Hom  
Executive Vice President and Chief Financial Officer

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Chairman of the Board and Chief Executive Officer

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President and Chief Operating Officer

Donald S. Hom  
Executive Vice President and Chief Financial Officer



**NORTHEAST**  
COMMUNITY BANCORP, INC.

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