Second Quarter 2024 Earnings Call Transcript

July 25, 2024

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Second Quarter 2024 Earnings Call.

During today's presentation, all parties will be in listen-only mode. Following the presentation, the conference will be open for questions, with instructions to follow at that time.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Jason Darby, Chief Financial Officer. Please go ahead, sir.

Jason Darby

Thank you, Operator, and good morning, everyone. We appreciate your participation in our earnings call.

With me today is Priscilla Sims Brown, our President and Chief Executive Officer.

As a reminder, a telephonic replay of this call will be available on the Investor's section of our website for an extended period of time. Additionally, a slide deck to complement today's discussion is also available on the Investor's section of our website.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution investors that actual results may differ from the expectations indicated or implied by any such forward-looking statements or information. Investors should refer to Slide 2 on our earnings slide deck, as well as our 2023 10-K filed on March 7th, 2024, for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

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Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measure can be found in our earnings release, as well as on our website.

Let me now turn the call over to Priscilla.

Priscilla Sims Brown

Good morning, everyone, and thank you for joining us.

Our second quarter financial results clearly demonstrate that Amalgamated is continuing its high performance across key metrics. We delivered outstanding deposit growth, strong returns, and a continuously growing sustainable earning space that will provide us with optionality as we look to further expand our franchise over the medium term. It was also nice to see the recent enthusiasm in our stock price for our shareholders. Clearly, our mission-based banking model is resonating with purpose-driven customers, and impact investors alike more than ever as they increasingly become aware of and care about what their money is doing.

During the quarter, we attended the Milken Institute Global Conference, the Sorenson Impact Summit, and several other conferences where we gave keynotes, participated in panels or fireside chats, as well as listened intently to insights from changemakers. We enjoy meetings like this, where we get the opportunity to see firsthand just how effective people become when they learn more about the positive impact their deposits can have when placed with a responsible bank.

It is also interesting to note that acceleration of private equity and product innovation in the social impact space is occurring. The top changemakers in global impact investing are mobilized, and Amalgamated is at the forefront to meet actionable opportunities. It's worth taking a moment to recognize that strong and consistent financial performance leads to invitations to events like these, and some recognitions, by being added to the 2024 Forbes' list of best banks in each state.

Our second quarter results drive this point home as our deposit franchise once again performed above peers, with over $759 million in new deposits, led by strength across our political, our union, and non-profit customer segments. Our non-political deposits were strong again this quarter as union deposits rose $258 million, and non-profit rose $240 million. This is a huge area of growth for us. There are over 30,000 unions in the U.S., and they are growing in number and size. As the largest bank for unions, we are excited about the runway.

In the non-profit segment, our effective execution has earned us strong name recognition and an extensive referral network. Our political deposit balances grew over 20%, and ended the quarter at $1.7 billion, well ahead of our prior peak of $1.3 billion, achieved during the midterm elections in 2022. Looking forward, we expect our political deposits to begin exiting during the third quarter as campaigns increase their advertising spend.

I also want to point out that we are witnessing increased enthusiasm among donors in response to headlines in the political space. These are unprecedented times, with fundraising records being broken by the hour. I am humbled to note that Vice President Harris' paperwork filed with the Federal Election Commission to officially become a candidate for President listed Amalgamated Bank as the campaign's bank of record. Our current model shows that our political deposits will trough at approximately $700 million at the end of the year, modestly above the 2022 trough. In preparation for this, we moved another $600 million in deposits

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off balance sheet during the quarter, and are now managing nearly $1.1 billion in off balance sheet deposits within our reciprocal network.

At the end of the second quarter, our non-political deposit growth has also been well ahead of our internal plan, which places us in a position where we now think the most likely scenario is that we will not add any significant level of borrowing to our funding mix through year end ‘24.

Turning to the other side of our balance sheet, loan growth was healthy in the quarter, and largely comprised of commercial real estate and multifamily loans; while our climate-related loan originations were muted by $87 million of commercial and industrial payoffs and paydowns during the quarter. Looking to the third quarter, we have approved several impact loan commitments in the first few weeks of July, and our sustainable lending pipeline looks promising for the second half of the year after showing modest growth in the second quarter.

Looking ahead, the political landscape is rapidly changing. Things like the Greenhouse Gas Reduction Fund could see some restructuring, but we remind you that none of our 2024 projections assume any GGRF lending. Our conservative forecasting takes into account the fact that those dollars have not actually been transferred out of the government yet. Regardless, the world has mobilized to meet the climate finance needs, which will require an estimated $3 trillion of financing over the next 10 years for just the U.S. to reduce net emissions to zero by 2050, and GGRF is a small portion of this needed capital. We believe this investment will occur no matter the political landscape, and Amalgamated is well-positioned to play a very important role as a provider of financing to these needed projects.

As I mentioned earlier, Amalgamated is recognized as an industry leader in climate finance, and positioned not only to take domestic share, but to have an international impact as well. We have spoken about our alliances with banks globally through the Net-Zero Banking Alliance and the Global Alliance for Banking on Values. Recently, we've also partnered with the U.K.-based Green Finance Institute, who are pioneering a property-linked finance product that is much like PACE financings here in the U.S. We see long-term opportunities to participate in climate-related projects globally, especially as the U.K. and other governments look to mobilize public decarbonization capital, similar to the U.S.'s GGRF.

As you can see, we have a long runway ahead of us as we appropriately grow the bank, and our financial results prove that social responsible banking is not only good for customers and communities, but also good business, delivering value for our shareholders.

Jason, over to you.

Jason Darby

Thank you, Priscilla. Good morning, everyone.

To keep things moving, I'm going to hit on less slides in the earnings deck and try to highlight just the most important items. If I miss anything, I'll be happy to cover it in Q&A. Let's start off on Slide 3.

Our 2024 second quarter produced more solid results. Net income was $26.8 million or $0.87 per diluted share. Core net income, which is non-GAAP measure, was $26.2 million or $0.85 per diluted share, representing a growing and sustainable earnings base. The quarterly results also featured significant deposit growth, with a low total cost of deposits of 155 basis points, net interest income growth, and a 13 basis point leverage ratio increase.

There was also a little bit of noise in the quarter, which is obscuring our margin improvement and net interest income growth, as we had $2.1 million of accelerated amortization on $20 million of C&I loans that we put

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back to the government, which lowered our net interest margin by approximately 10 basis points. Excluding this unexpected impact, our net interest margin would have risen 7 basis points to 3.56%, from 3.49% in the prior quarter. That said, in Q3, we anticipate recognizing $1.5 to $2 million of net deferred loan costs, which will reduce our NIM by around 10 basis points from the second quarter's adjusted level of 3.56% all else equal.

Our neutral balance sheet strategy continues to pay dividends for us, and we are now managing $1.1 billion of off-balance sheet deposits, comprised of both transactional political deposits and excess non-political deposits. Our deposit strength allows us great flexibility to structure our balance sheet for sustainable profitability and returns; and in the second quarter, off-balance sheet deposits generated approximately $4.9 million of non-core, non-interest income.

Over the past few quarters, we've been utilizing this off-balance sheet income to further reposition our securities portfolio, and we sold another $140.1 million during the quarter. We expect that we will continue to utilize this non-core, non-interest income through the third quarter to further sell securities and residential loans focused on improving our core earnings. More to come on this when I close out my comments.

Continuing to Slide 4, we look at some of our key performance metrics during the second quarter. Starting off on the left, our tangible book value per share increased $0.88, or a healthy 4.5% to $20.61, crossing $20 for the first time in the bank's history. Our core revenue per diluted share was $2.52 for the second quarter, a 4 basis point increase from the prior quarter. We think this nicely shows our commitment to delivering long-term shareholder value.

Moving across to our returns, core return on average equity was 16.93%, which we expect to modestly decline as we build our equity base through earnings and mark-to-market improvement. We are especially pleased with our consistent core return on average assets of 1.27%, showing in the earnings power and potential of the bank.

Moving to capital, our tier one leverage ratio improved another 13 basis points to 8.42%, and we have made significant progress building capital over the last year or so. Our tangible common equity tangible assets was 7.66%, improving from the previous quarter despite long-term interest rates modestly ticking up.

Turning to Slide 5, total deposits of June 30, 2024 were $7.4 billion, an increase of $143.2 million from the linked quarter, which, as Priscilla noted, only tells part of the story. On-balance sheet deposits, excluding brokered CDs, increased $152 million, or 2.1%, to $7.3 billion, though there were significant additional deposit growth during the quarter. Non-interest-bearing deposits actually increased to approximately 46% of average deposits, and 47% of ending deposits, excluding brokered CDs, contributing to a strong average cost of deposits of 155 basis points in the second quarter.

Jumping ahead to Slides 6 and 7, the book value of our traditional securities portfolio increased $121.2 million during the quarter, primarily as a result of $342.2 million in purchases offset by $140.1 million in strategic sales, and $81.5 million in traditional securities paydowns as part of our strategy to reduce our downside interest rate risk. During the quarter, we also utilized derivative hedges and repositioned our securities portfolio in order to minimize downside interest rate risk associated with a strong deposit growth.

Net PACE assessment growth is $27.4 million. R-PACE production modestly exceeded the $20 million to $25 million range that we provided on the first quarter call. Looking to the third quarter, we anticipate R-PACE production of an additional $20 million to $25 million as we add additional purchases.

Turning to Slide 8, net loans receivable at June 30, 2024 were $4.4 billion, an increase of $49 million or 1.1%, compared to the linked quarter. The yield in our total loans decreased 8 basis points to 4.68% during the quarter, and the decrease in loan income and yield was primarily due to $20 million of the government

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guaranteed C&I loans that we put back to the government. These loans had a $2.1 million premium, which required accelerating the amortization of the premium, and which had a one-time impact on our second quarter loan yield and interest margin.

Moving to Slides 9, 10, and 11, looking at the real estate portfolio, we have $134 million in maturing, lower-priced commercial real estate, and multifamily loans over the balance of the year. Importantly, we have a relatively benign exposure profile as our office-only commercial real estate portfolio was $61 million, comprised of all past-grade credits, and less than 23% of our multifamily portfolio had loans with units subject to pre-1974 rent stabilization rules. Early in the third quarter, we have one of our office-only credits for $18 million to set to pay off, which will nicely improve the risk profile of our CRE basket.

On the multifamily side, we have already been working with all of the borrowers well in advance of maturity and feel comfortable with our plans for action, relative risk, and related allowance reserve coverage at this time. During the quarter, we renewed $12 million of pre-1974 exposure across two credits via a combination of cash infusions and amortizing terms in exchange for modest rate concessions. In the third quarter, we have $35 million of pre-1974 loans maturing.

Moving to Slide 14, non-performing assets were relatively stable at $35.7 million, or 0.43% of period and total assets at June 30, 2024; and our criticized assets decreased $6.4 million to $94.5 million on a linked quarter basis. That said, our consumer solar charge-offs remained elevated as we experienced a high net charge-off rate of 23 basis points, and we added approximately $1 million of additional reserves to boost our coverage ratio to 7% of that portfolio, shown on Slide 15. Given the trends that we have been seeing in our consumer solar portfolio, we have made the decision to move our ACL coverage ratio higher in order to get ahead of potential year-end changes in our CECL model.

Turning to Slide 16, we are raising our full year 2024 guidance to core pre-tax, pre-provision earnings of $149 to $152 million, and net interest income of $274 to $278 million, which considers the effect of the forward rate curve of 2024. Additionally, we estimate approximately $1.4 million decrease in annual net interest income for a parallel 25 basis point decrease in interest rates beyond what the forward curve currently suggests, down from a $2.2 million decrease in annual net income in the preceding quarter.

To conclude, we are updating our target balance sheet size for year-end to approximately $8.3 billion. We have been very happy with our Tier 1 leverage growth, and even at a slightly larger balance sheet, we believe we can still improve leverage well beyond 8.5% in the coming quarters. We have consistently said, the most important factor for us to expand the balance sheet was the performance of our non-political deposit gathering franchise.

Halfway through the year, we are remarkably ahead of our deposit plan, and now believe it's likely we will not need wholesale funding support for the significant political deposit outflows that we expect in the fourth quarter, when the presidential election concludes. In fact, we believe our outlook shows how Amalgamated can continue to deliver margin expansion and earnings growth well beyond the current year.

Briefly looking at the third quarter, we are reasonably optimistic that our net interest margin can expand 2 to 4 basis points, including the absorption of the deferred costs discussed earlier. Correspondingly, we anticipate our net interest income to range between $69 million and $71 million in the third quarter.

In the fourth quarter, we could see some margin pressure as non-interest bearing deposits will likely be first out for the election, but we believe the effect will be minimal at between 2 to 4 basis points off the third quarter, and will likely also serve as a new inflection point heading into 2025, as we have much runway ahead of us for loan yield expansion.

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In closing, we are very happy with our second quarter results, and are quite optimistic for the remainder of the year, and 2025 as well. We look forward to updating you all again with our third quarter results in October.

With that, I would like to ask the Operator to open up the line for any questions. Operator?

Operator

Thank you, and our first question is from the line of Janet Lee with J.P. Morgan. Please proceed with your questions.

Janet Lee

Good morning.

One of your peers in your market reported a large credit loss from New York office and rising credit pressure from thier rent-regulated portfolio. It appears your credit metrics are pretty stable. Can you give us an update on how your credit expectation on your rent-regulated portfolio have changed, if at all, over the past quarter, and what makes you confident that the current reserve ratio on your asset cost is sufficient?

Jason Darby

Thanks, Janet. I'll take that.

We feel really good about our real estate portfolio right now, and we're aware of the news. It's unfortunate, but we do think that the portfolios are rather different. We've spoken about that publicly. Just the nature of our portfolio, the geography is similar, but the client base is quite a bit different from some of the other banks that are reporting negative news. We have had some success, again, this past quarter with renewals on the loans that we think are the most susceptible to the market rate risk in the multifamily portfolio, those being the pre-1974s. We had about $10 million or $12 million that came due in the second quarter, and we were able to find a renewal path which consisted of a combination of cash injection and amortizing terms.

We did give some modest rate concession to keep the borrowers in their properties, but we think, all else equal, these are very strong outcomes there. We've talked about this before, but the upcoming tranches, we have $35 million of the pre-1974 style loans coming due. In this quarter, we've been very active with the borrowers well in advance of this renewal date, so no anticipated surprises with the borrowers, at least in terms of what the renewal expectations are. We think, between the ability for the borrower to put cash into the deal and having strong LTVs, that we're in a really good place to be able to continue to manage those properties or those renewals effectively.

We're very conscious of the reserve coverages. The macroeconomic forecast was actually benign relative to our CECL model, but we elected to not take any benefit through our ACL relative to the macroeconomic factors, and keep those reserve ratios on both the CRE and the multifamily portfolios flat from the prior quarter. Just, again, given the loss history and how we see the portfolio going forward, we didn't feel a need to move up those coverage ratios at this time, but we take a very cautious approach towards the portfolio. We have a very, very close eye on each of the credits that are there, and if there were anything that we felt was a significant risk, you'd certainly see that in our financial results relative to coverage ratios or otherwise.

So, those are the long answers for your question, Janet, but I think the way that we manage the portfolio, the amount of de-risking that we did prior to where we are from current status, and the proactive nature we have in portfolio management is a deciding or a differentiating factor between us and some of the other banks right now, and we'll continue to be very, very cautious with it.

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Janet Lee

Okay, that's very helpful. Just on consumer solar, so the 2.5% net charge-off ratio, is that the level that we should expect in the coming quarters until we get a rate cut? Is that sort of a good run rate of net charge-off ratio that you expect from this asset class, or how should we think about that?

Jason Darby

I think it's a good proxy to use going forward until we see a more substantive rate decline. I think the NCOs were about 23 basis points this quarter, which is the highest end we've had in the charge-off rate right now. I like the range of that 15 to 23 basis points. We are very active in driving recoveries. We haven't been able to see that flow through the financial statements yet, but I do believe we're going to have some level of benefit moving through the financials. It's at a point where I think it's more conservative to use the current loss rate as your proxy going forward, until we can demonstrate some better recovery metrics at this point.

That's why we moved that coverage ratio up to 7% on the overall consumer portfolio for this quarter. We think that there could be a little bit of a CECL impact as we get closer to the end of the year. So, looking at that loss rate and adding a little bit more coverage we think was a prudent thing to do, and really reflective of probably a forecast of there being an ongoing higher elevation or a higher rate of charge-offs in the portfolio than we would have liked at this point.

Janet Lee

Okay, got it. On C&I, it looks like you guys are seeing some increase in commitments, and hopefully some lessening payoffs there. Priscilla, you talked about modest growth in the second half of 2024. Can you give us a little more details about your expectations on C&I growth and more overall loan growth as we head into the back half of the year, as well as heading into 2025 potentially, as we also get rate cuts?

Jason Darby

Yes, absolutely. I'll take the first part of that question, Janet, and then flip it over to Priscilla for a little bit more of the forward look.

In the current quarter, we didn't show much growth in the C&I. In fact, I think it was net down very slightly, but there was actually some really good activity that happened during the quarter. We had about 37 million or so of new originations that were all climate-related, and we had another $47 million that was drawn from previously booked deals. We also had a couple of good pointsin the quarter that obfuscated those results. We had a payoff in one of our pass-rated C&I loans, but it was 6 a grade andwe weren't thrilled with the outcome, that might happen in the upcoming quarter, so the payoff was actually a very, very good thing. Then we put back $20 million of USDA loans to the government, so net-net it really obfuscated what we thought was a pretty decent quarter so far in C&I, and we had some nice closing of commitments early in July that are reflected in our off-balance sheet reserve. We think there's some momentum there, and Priscilla, do you want to share a little bit about what we think the rest of is going to look like?

Priscilla Sims Brown

Sure, sure, sure. Janet, I think, for the full year, we are still comfortable with a target of about 4%, and that equates to about somewhere between $275 million to $320 million of loans. That will be pretty—in the third quarter and both the fourth quarter, we're targeting something along the lines of $100 million to $120 million, so for both quarters. Of that, we expect, just looking at the pipeline, we're going to bring on somewhere

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between $150 million and $185 million in climate-related loans by the end of the year, but, to the point Jason just made about draws, I mean, we think that will amount to about $50 million in draw in the year.

None of this takes into account anything that may come through from like a GGRF or anything else. This is just the normal course of business that we see through the pipeline today.

Janet Lee

Got it. That's helpful. My last question, if I could, it appears that you experienced a similar pace of interest-bearing deposit costs in the second quarter versus the last quarter. Can you give us some color on your deposit pricing competition in your market and your end-NIM outlook for the third quarter and fourth quarter? Are you baking in that, as we get a couple of rate cuts potentially this year, assuming the forward curve, you expect a deposit cost decline towards the end of the year?

Jason Darby

The NII forecast or the guidance update that we gave does assume 50 basis points of rate cuts, as the forward curve suggests. The—to back it up and tell you how we get there, I think the deposit rates, the way we've seen them trend, we were predicting it to be right around this cost of funds that we had in the third quarter, just based on the stated rates that we had at the end of the second quarter. I think those have tracked pretty nicely.

I usually turn to the money market rate on our deposit disclosure and our press release as a good indicator as to where our overall deposit cost of funds are going. We have not seen, in the latter half of the second quarter and early into the third quarter, any significant deposit pricing pressure relative to our competition, and so I'm not expecting a big increase in stated cost of funds throughout the rest of the third quarter. That said, when we get to—and I think, before I get to the fourth quarter, that said, I think that's going to be a big contributor for our ability to deliver margin and NII expansion in the third quarter, presuming everything stays as we are hoping it will.

When we get to the fourth quarter, what should be interesting is the migration of the balances through the election cycle. Figure, we're estimating somewhere around $1 billion will move out of the bank and into the campaigns. We've got about $1.1 billion sitting off-balance sheet right now, and we had been consciously keeping some of the higher cost deposits on our books to smooth out any effect we might have had, Janet, for the need to use higher cost borrowings in the fourth quarter to fill the gap for political deposit outflow.

As it looks right now, we don't think we're going to need any borrowings or wholesale funding to support that outflow. So, while we do expect the non-interest bearing deposits to be first out, if you will. The interest bearing deposits that would move back onto the balance sheet probably are priced a little bit lower than what we're showing on our stated rates right now in the third quarter. That gives the math, if you will, to get to a lesser of an impact on the margin than we would normally have expected in the fourth quarter and really set us up for a new inflection point and margin expansion, and hopefully NII growth as we move into 2025.

That's a lot. I'm happy to take a follow-on, if you want to dissect that a little bit.

Janet Lee

That's very helpful. That's it. Thank you.

Priscilla Sims Brown

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Janet, you'd also asked about '25, and we'll be talking more about that at the end of the year as usual.

Janet Lee

Thanks.

Operator

Our next questions comes from the line of Mark Fitzgibbon with Piper Sandler. Please proceed with your questions.

Mark Fitzgibbon

Good morning.

Priscilla Sims Brown

Hello, and welcome.

Mark Fitzgibbon

Thank you.

Jason Darby

Hey, Mark.

Mark Fitzgibbon

Priscilla, I was curious, do you think the late change in the Democratic presidential candidate will affect the flow of political deposits in the third quarter at all?

Priscilla Sims Brown

Well, you know, as you've already seen, we are trending about $0.5 billion above where we would normally be at the peak toward a later point in the cycle, so I think the enthusiasm on both sides will continue. I think fundraising, as you've seen in the last four days, has kicked up. I think there's new enthusiasm, and you'll see those numbers continue to grow. So no, I don't expect that you're going to see a decline.

Mark Fitzgibbon

Do you have a sense for what the $1.8 billion that you have in political deposits represents as maybe a percentage of the Democratic political deposits as a whole? I guess I'm just trying to get a sense for what percentage of the total pie do you guys represent?

Priscilla Sims Brown

I think your firm and others have looked at that, not so much on just the Dem side, but on general fundraising and elections, but we don't do that. So, I don't know what the larger fundraising has been in the whole ecosystem because, keep in mind, it's not just what the candidates raise and their super PACs. It's also the ecosystem of people like ActBlue and other major clients, and I don't have that number. Do you?

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Jason Darby

We don't have that number. We know we have a significant portion, but what we like to point to as an indicator would be Harris recently has been moved towards the presumptive nominee for the Democratic Party, and in her campaign election filing with the Federal Election Commission, Amalgamated Bank is listed as the bank of record for the campaign. So, without being able to specifically quote what our share is of that space, we do think it's really important to see how entrenched Amalgamated is in this whole process, with the campaign finance and the Democratic Party, and hopefully that gives a good indication of our position relative to a pretty significant change that just occurred in the party process.

Mark Fitzgibbon

Okay, great. Then, changing gears a little bit, I was wondering if you could share with us what the average yields on the multifamily and commercial real estate loans that are set to mature in the back half of this year look like?

Jason Darby

Yes, back half of the year, they're still coming in that low 4% range for the multifamily and for the CRE. We're probably going to have a little bit of noise, though, because on the C&I side—not that you asked us, but on the C&I side, we're going to have some shorter term, higher yielding loans moving off the books. So, while we're going to get some ability to grow yield relative to the real estate portfolio, we're going to have to replace some higher-yielding assets on the C&I side. So, the effect will be a little bit muted in the back half of the year, but that hopefully gives you a sense of what's turning over on the real estate portfolio.

Mark Fitzgibbon

It does. Then in terms of like you originated I think $55 million of multifamily loans in the second quarter, what kind of rates did those new loans come on at?

Jason Darby

Yes, they were coming on in the—call it high 6% to low 7%, somewhere in that 6.85% to 7% range. The LTVs on those were real strong. I think we've booked some really prudent credits, and I'm really happy with those real estate assets that we were able to add from a client point of view.

Now, rates have come down a bit and the spreads are tightening up, so I don't think we're going to have those same types of bring-ons in the third quarter. We're thinking it's going to be more in the low- to mid-six range for real estate assets that we would do in the third quarter.

Mark Fitzgibbon

Okay. Then lastly, could you share with us any thoughts on operating expenses in the third and fourth quarter?

Jason Darby

Yes. We are moving very much according to our plan. We were a little accelerated in OpEx this quarter versus Q1, but that was expected. We had said in Q1 that we were a little lower than our annualized run rate. We are targeting a $157 million annual expense run rate, and we're tracking very much to that. We think the quarterly expense run rate would be $39.25 million or something along those lines for both Q3 and Q4.

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That said, and we'll be very open about forecasting when we get to the Q3 call, if we continue to track towards the higher end of our new guidance, we may look to advance some project work that we had scheduled for next year into this year to get a head start, which would necessarily increase the OpEx, but we'd be very mindful, obviously, of how that would affect core efficiency. So, as long as the top line's there, Mark, we would be potentially adding to the expense base a little bit sooner than we would have coming into next year, and that would drive that number from $157 million up maybe to $158 million or $159 million.

Mark Fitzgibbon

Great. Thank you.

Jason Darby

You're very welcome.

Operator

Thank you. As a reminder, to ask a question today, you may press star, one from your telephone keypad. The next question is from the line of Chris O'Connell with KBW. Please proceed with your questions.

Priscilla Sims Brown

Hey, Chris.

Christopher O'Connell

Hey. Good morning. I just wanted to start off on the political deposit and the flows into the back half of the year. If I'm reading everything right, I think the $1.7 billion and change, $1.7 billion to $1.8 billion of total political deposits was about—there's only about $700 million, $600 million and change on the balance sheet right now. Is that correct?

Jason Darby

It's a little bit more on the political side. It's probably closer to $1 billion that's on the balance sheet right now. We've got about $450 million of that off-balance sheet. I might have those numbers a little bit off, but I think we do a reconciliation in the back part of the earnings deck for you on that, Chris.

Christopher O'Connell

Okay, got it. Then, so more or less, like the off-balance sheet really reduces the risk of a large deposit change, even with the election cycle in the fourth quarter, maybe only $200 million to $300 million of on-balance sheet reduction?

Jason Darby

I think that's right. It's more about the mix. If you just think about it as a first line of defense, the off-balance sheet deposits would be the ones that would go against the political deposit outflow. So, if we have a $1.1 billion off-balance sheet right now and we expect around $1 billion or $1.1 billion to go out on the political campaign, that would effectively reduce that off-balance sheet to zero, obviously, but the idea would be you'd be taking on balance sheet quite a bit of those off-balance sheet that sit there because

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they're not political. That would be the impact, if you will, I was talking about with Janet earlier, that would happen to our overall cost of funds.

Like I said before, we've had some of the higher-priced deposits on-balance sheet for the specific purpose of not having a wild blip in funding costs if we had to go out to the borrowing windows and plug the hole for deposit outflow, like we've done in the past. In this case, we'd be just changing that mix and you'd be seeing interest bearing deposits coming back on the books that probably drive that non-interest bearing to interest bearing ratio down a bit. But, all equal, it should be a nice benefit relative to what the price would have been on wholesale funding costs.

I'm not sure if I'm answering exactly your question, but that's the way to think about that off-balance sheet and deposit outflow for political, or at least that's how we're thinking about it.

Christopher O'Connell

No. Yes, that's very helpful. Is the intention or your expectation that there's probably some level of additional ICS fees that you get in the third quarter, and then that kind of trends off down to zero into the fourth quarter, and then kind of revisit that strategy, depending on the level of excess deposit growth in 2025?

Jason Darby

That is the baseline assumption, Chris, that the ICS fees will be fairly substantial here in Q3, and we think we have some great opportunities to do some additional balance sheet restructuring beyond securities, particularly looking at residential loans and moving some of that in the form of a sale so we can create better ability to continue to improve the earnings stream. You get to the fourth quarter, in theory, we get closer to zero if the outflows matched what I just said for you for the off-balance sheet, and then you would start to think about building that back up if deposits continue to outpace, and we want to keep our balance sheet relatively level to where we are at this $8.3 billion, $8.4 billion range.

The trick would be, is the political outflow going to be $1 billion? Is it going to be less or is it going to be more? We still don't really know, but going in, we think that $700 million, which was our trough at the end of 2023, we think that's going to be our baseline assumption, Chris. So, all else in, that's the way this hopefully will end up for us, and, in theory, if it does happen that way, we could start to see more ICS income in the coming year.

Christopher O'Connell

Great. Then you mentioned the securities that were sold during the quarter. Do you have the yield of what those were on-balance sheet at?

Jason Darby

I don't have that off the top of my head. I can probably get that for you in post, if that's okay, or perhaps somebody can send me a note. But if you can hold on, then I can get that for you. I don't exactly know that answer.

Christopher O'Connell

Yes. Then just you talked about maybe doing a little bit more of that to help out the margin in the back half of the year. Any sense of the size and just the ballpark yields on what you have left to be able to do there?

Jason Darby

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On the securities portfolio, there's still a fair clip of agency and non-agency that's in that—call it high 3 to mid 4 range, where we can get some impressive opportunity to flip over the earnings stream. But what we're really focused on now is more the real estate portfolio. We'll probably do less securities portfolio restructuring, and we've done now $715 million or so, it might be a little bit more, in securities turnover since the first quarter of last year.

Right now, the focus is moving a little bit more to the loan portfolio, where we want to do a couple of things, particularly with resi. Number one, we want to demonstrate some liquidity out of that portfolio. Number two, we want to be able to move the lowest-priced assets that we have on the balance sheet. In that space, we have a bunch of assets in that 3 to 3.50 range, where we think we can get some pretty strong paybacks in terms of time relative to the pricing of those loans. So, that's where more of the focus is going to be in the third quarter relative to how much we generate from the ICS income, so figure less on securities, more or new with loans.

I'm getting a note, Chris. The sales were around 5.25% for the securities that we just took off in the third quarter. Hopefully that gives you a little bit—I'm sorry, in the second quarter. I'm hoping that gives you a little bit of a sense for what we're trying to do. The securities again, sorry, I said 3.50 to 4.50. I think it's going to be more in that 4.50 to 5.25 range for the securities that we might do in the third quarter and fourth quarter also. Apologies for the misquote earlier.

Christopher O'Connell

No. It's all good. Then can you talk it just a little bit about the non-political deposit, kind of socially-responsible organization, or the rest of the deposit pipeline into the back half of the year?

Priscilla Sims Brown

Yes, that's a really good part of a story for us, Chris. It really is a reflection of the credibility that we enjoy with not for profits, and the incredible kind of connection or conversations that take place between them. So, a lot of that is referral business from existing clients, or from clients who have moved from one not for profit to another, and we continue to have really strong relationships in that arena, so that's worked out very well. Then of course there's also the climate-related organizations as well, placing deposits.

Christopher O'Connell

Great. Then, you talked about some of those other organizations and you the potential, the kind of impact to trust business in a positive way going forward. Any updates on what you see from that side of the business on a go-forward basis?

Priscilla Sims Brown

You're speaking specifically to the trust business?

Christopher O'Connell

Yes.

Priscilla Sims Brown

Yes? Okay, sorry. Yes, I'm feeling very good about what we are doing on the trust side right now. Last quarter, we brought on a new leader, moved the organization together under one leader, so you have one

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real profit center, and the ability—one person with responsibility for the P&L. We also think the opportunity, obviously, in the union space is huge, and we are only scratching the surface. Even as the largest bank in that space, we're barely scratching the surface there. We brought on new clients in the quarter. We're continuing now to just expand our awareness and providing services there. So, we have a lot of optimism as relates to trust in the union space.

Christopher O'Connell

Great. Thanks for taking my questions.

Priscilla Sims Brown

Thank you.

Jason Darby

Thanks, Chris.

Operator

Thank you. At this time, this concludes our question-and-answer session. I would now like to turn the floor back to Priscilla Sims Brown for closing remarks.

Priscilla Sims Brown

Great. Thank you, Operator, and thanks for all of those good questions. We appreciate them and the opportunity to discuss our second quarter results, and we hope to continue the conversations offline as you work to fine tune your models. We think the quarter shows that we've continued to demonstrate the strength and competitive advantages that we enjoy as we look to the second half of the year.

I'd like to thank our employees for their hard work and their dedication to the bank, and to all of our customers. Our success would not be possible without the commitment and determination of a really talented team that is maturing well over the course of the last three years.

To conclude, I could not be more excited with the opportunities that lay ahead for Amalgamated Bank. We're operating at a high level, with strong earning space, and multiple avenues to drive further growth and returns. We're well-positioned for the significant secular changes that are occurring, specifically in climate finance, and I look forward to updating you on our progress on our third quarter call.

So, once again, thank you for your time today. We look forward to continuing the dialogue.

Operator

That concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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