amalgamated FINANCIAL CORP.

Third Quarter 2022 Earnings Call Transcript

October 27, 2022

CORPORATE PARTICIPANTS

Jason Darby, *Chief Financial Officer & Senior Executive Vice President*

Priscilla Brown, *President, Chief Executive Officer & Director*

CONFERENCE CALL PARTICIPANTS

Alex Twerdahl, *Piper Sandler*

Chris O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Corporation Third Quarter 2022 Earnings Conference Call.

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 third quarter 2022 earnings call. With me today is Priscilla Sims Brown, President, and Chief Executive Officer. As a reminder, a telephonic replay of this call will be available on the Investor 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 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 slides two and three of our earnings slide deck, as well as our 2021 10-K filed on March 11, 2022, for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

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 the 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.

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Priscilla Sims Brown

Thank you, Jason, and good morning, everyone. We appreciate your time and interest today. This morning, I will provide an update on the success that we are achieving executing on our growth for good strategic plan, highlighted by our second consecutive quarter of record earnings. Jason will then provide a more in-depth review of our third quarter financial results.

Core tenets of our strategy are to accelerate loan growth and improve our profitability, while managing our risk exposure prudently and growing our positive impact on society. Coming into this year, I've spoken often of our desire to be the most improved bank in the country for financial performance metrics. I am proud to say that our quarterly results demonstrate that we are firmly on the right path.

In a short few months, Amalgamated will celebrate its centennial anniversary as a U.S. banking institution, and I couldn't be more inspired by the team we have in place to propel this great bank into its next centennial.

Diving into our quarterly results, I have four key metrics to emphasize on today's call.

First, we reported another record quarter of earnings of $0.74 per share, an increase of $0.11 per share, or 17.5% from the previous quarter, while core earnings increased by an even greater 17.9% from the linked quarter.

Second, we delivered 6.1% loan growth as compared to the linked quarter, representing our fourth quarter in a row nearly at or above 5% growth. Additionally, PACE assessments increased $115 million to $857 million as compared to the linked quarter, which when combined with our loan growth represents very strong asset growth in the quarter.

Third, our average deposits increased by $191 million to $7.3 billion, reflecting a strong order for deposit attraction in an increasingly competitive deposit environment.

Fourth, our strong loan growth combined with our low-cost deposits led to net interest margin expansion of 47 basis points to 3.5% in the quarter.

The success that we are achieving is a result of the concerted steps that we took to expand our commercial banking team, adding experienced lenders and segments of the markets that fit with our core mission and values, including sustainability, workforce housing, economic justice, and community financing. These bankers are augmented by the hiring of portfolio managers and underwriters.

We have also reorganized our banking teams on a national basis to unlock the substantial lending opportunities that we believe exist today, not only with new customers, but also current customers of the bank. Importantly, we have been judicious in our hiring to ensure that we are earning an appropriate return and utilizing our improving profits for further reinvestment in other areas of our business.

While we are having strong success growing our loan portfolio, we are also in an advantageous competitive position given our low-cost deposit gathering franchise. Our deposit base is made up of a wide-ranging group of clients from all of our market segments who passionately share our views. We believe we have a durable competitive advantage and are confident we can continue raising deposits during the current liquidity tightening as a result of the Federal Reserve continuing to raise its benchmark interest rate to combat inflation.

Through the first 300 basis points the FED rate increases, we are seeing benefits from both our decision to maintain our asset sensitivity and our improved loan growth that we have been delivering. This is driving

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significant margin expansion as our NIM improved to 3.5% in the third quarter, quite an improvement from the 2.75% at the second quarter of 2021 when I joined the bank.

I am particularly proud of the improvement in our returns, where our return on average assets has expanded to 1.15% from 0.65% in the 2021 second quarter, already exceeding our target of 1% by the end of the year. While we have accomplished a tremendous amount over a short period of time, we know there's much more to do as we position Amalgamated for the next leg of growth.

I've spoken often about Amalgamated's history being among the first to embrace the concept of banking for good while never wavering from our century-long mission of empowering organizations and individuals to advance positive change. Amalgamated has earned and lived its reputation as America's socially responsible bank.

Sometimes I ponder the gravity of what being a bank for a hundred years means: supporting customers and communities through multiple periods of economic highs and lows, valuing and prioritizing the needs of working people without discrimination, and surviving and thriving in an ever-consolidating U.S. banking system. There are very few banks in the country that can say they're in the 100-year club, but charting our next centennial should be quite a ride.

This is a nice segue to update you on our digital transformation journey that I introduced in our second quarter call. We see a tremendous opportunity to tie our commercial business into a reimagined consumer business and reach through our commercial customers to their members. For instance, if we're doing business with a large not-for-profit, we want to attract their members and donors who are naturally aligned with Amalgamated's mission.

While mission alignment is critically important, we must also offer products and services that are competitive and meet their needs. To do this, I'm very excited that we were able to recruit a highly capable executive from USAA Bank during the second quarter to lead the effort. We are well into the process of evaluating our products and delivery platform with a focus on gathering customers and selling our products digitally.

We recognize that investments will need to be made, but as was the case with our lending strategy, we will make disciplined choices, funded through profitability, with a requirement for timely returns. We will also increase our investment in our brand and supportive issues that are consistent with the social responsibility of a bank and important to our employees, our customers, and the majority of Americans.

I have consistently said that profitable growth is an outcome for us, having a positive impact on issues that matter, and I'm proud of our accomplishments. Despite being 100 years old, we are still occasionally facing questions about what it means to be a values-led bank. We understand this and we encourage a sensible dialogue to build a better understanding of views.

The step we took to support law enforcement through better reporting of potentially illegal firearm sales was understandably a sensitive topic. However, we continue to also stand with legal gun owners and fully support legal gun sale rights. While we aren't the only company to take common sense positions, I remind our investors that our customers care deeply about doing business with a bank that invests their deposits in line with these values. This strong customer intimacy is a true competitive advantage for us and one that is sustainable through various business cycles.

Being a great and socially responsible bank is our number one priority and business fundamentals such as earnings, credit quality, liquidity, and capital management. We believe we now compare favorably to our peers.

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I've been pleased with our stock performance during 2022, and I'm delighted for our shareholders who believe in us as a responsible investment. While there is economic uncertainty ahead, we remain cautiously optimistic as our bankers continue to expand Amalgamated into growing markets such as climate, with significant loan growth potentials that we believe are less subject to economic downturn.

I am excited about moving Amalgamated into its next centennial and the next phase of our growth for good strategy.

Let me now turn the call over to Jason.

Jason Darby

Thank you, Priscilla. Net income for the third quarter of 2022 was a record $22.9 million or $0.74 per diluted share, compared to $19.6 million or $0.63 per diluted share for the second quarter of 2022. The $3.3 million increase during the quarter was primarily driven by an $11.1 million increase in net interest income, partially offset by a $2.5 million increase in provision for loan losses, a $2.2 million decrease in non-interest income, a $1.9 million increase in non-interest expense, and a $1.2 million increase in income tax expense related to our increased pre-tax income.

Beginning on Slide 5, exclusions related to solar tax equity investments were a $1.3 million loss on accelerated depreciation for the third quarter of 2022. Because of the income statement volatility associated with the accounting for these investments, we believe metrics excluding the timing impact of tax credits or accelerated depreciation is a helpful way to evaluate our current and historical performance.

Core net income, excluding the impact of solar tax equity investments on non-GAAP measure for the third quarter of 2022 was $24.8 million or $0.80 per diluted share, compared to $20.9 million or $0.67 per diluted share for the second quarter of 2022.

Turning to Slide 7. Deposits at September 30, 2022, were $7.2 billion, a decrease of $130.9 million from the second quarter of 2022. However, average deposits for the third quarter increased nicely by $191.1 million to $7.3 billion. The decline in spot balances was primarily related to the timing of our pension and benefit fund clients' normal payroll withdrawals as well as the first leg of political deposit runoff as the midterm election in early November nears.

Non-interest bearing deposits represent 56% of average deposits and 54% of ending deposits for the quarter ended September 30, 2022, contributing to an average cost of deposits of 14 basis points in the third quarter of 2022, a 6 basis point increased from the previous quarter due to our decision to reprise in response to the rising interest rate environment.

Deposits held by politically active customers were $1.2 billion as of September 30, 2022, a decrease of $123.7 million on a linked quarter basis. As noted on our previous call, political deposit trends are difficult to predict, and we have seen strong spending by candidates earlier in the cycle as races tighten across the country. As a result, we now expect our political deposits to bottom at approximately $0.7 billion to $0.8 billion in the fourth quarter when the midterm election cycle concludes before starting to rebuild in the first quarter of 2023.

Turning to slide 11, total loans receivable net of allowance and deferred fees and costs at September 30, 2022 were $3.8 billion, an increase of $220.2 million or 6.1% compared to June 30, 2022. The increase in loans is primarily driven by a $95.9 million increase in residential loans, a $61.7 million increase in commercial and industrial loans, a $41.4 million increase in our consumer and other loans due to solar loan originations, and a $31.3 million increase in multi-family loans, offset by a $4.3 million decrease in

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construction and land loans and a $3 million decrease in the commercial real estate portfolio as we selectively de-risk our exposure in metropolitan areas.

Our continued focus on credit quality improvement in the commercial portfolio resulted in $16.9 million of payoffs of criticized or classified loans. The yield in our total loans was 4.11% compared to 3.86% in the second quarter of 2022.

On slide 12, net interest margin was 3.5% for the third quarter of 2022, an increase of 47 basis points from 3.03% in the second quarter of 2022. The margin increase compared to the preceding quarter was driven by large increases on floating rate yields from interest earning assets, partially offset by increases in costs on interest bearing liabilities.

Prepayment penalties earned in loan income contributed four basis points to our net interest margin in the third quarter of 2022, compared to two basis points in the second quarter of 2022. Core non-interest income, excluding the impact of solar tax equity investments in non-GAAP measure was $7.5 million for the third quarter of 2022 compared to $8.7 million in the second quarter of 2022. The decrease of $1.2 million was primarily related to losses on sale of non-performing loans.

Core non-interest expense, another non-GAAP measure for the third quarter of 2022, was $36.3 million, an increase of $2.3 million from the second quarter of 2022. This was primarily driven by a $1.5 million expected increase in compensation and employee benefits as we continue to invest in our long-term growth strategy, and a $0.4 million increase in professional fees. Looking forward, we expect our non-interest expense to modestly rise as we make investments in our brand to grow our digital consumer business as Priscilla touched on.

Moving to slide 16, non-performing assets totaled $54.3 million or 0.69% of period and total assets at September 30, 2022, a decrease of $11 million compared with $65.3 million or 0.82% on a linked quarter basis. The decrease in non-performing assets was primarily driven by a $5.7 million pay down on one commercial and industrial loan, as well as $3.9 million in residential loans that were sold. As we continue to prioritize and implement actions to improve the overall credit quality of our loans portfolio, we also improved our criticized assets, which declined $22.8 million or 16.8% to $113 million on a linked quarter basis.

The allowance for loan losses increased $2.6 million to $42.1 million at September 30, 2022, from $39.5 million at June 30, 2022, primarily due to increases in loan balances and an increase in qualitative factors. At September 30, 2022, we had $38.2 million of impaired loans for which there was a specific reserve allowance of $5.2 million compared to $60.1 million of impaired loans at June 30, 2022, for which there was a specific allowance of $6.1 million. The ratio of allowance to total loans was 1.09% at September 30, 2022, and 1.08% at June 30, 2022. The ratio of allowance to non-accrual loans improved to 212.51% at September 30, 2022.

Provision for loan losses totaled $5.4 million for the third quarter of 2022, compared to $2.9 million in the second quarter of 2022. The increase in the provision expense on a linked quarter basis is primarily driven by higher loan balances, an increase in qualitative factors, and $1.6 million in charge offs related to non-performing loans that were transferred to help for sale.

Moving along to Slide 17 and 18, our core return on average equity and core return on average tangible common equity, excluding the impact of solar tax equity, were 19.2% and 19.9% respectively for the third quarter of 2022. We repurchased $0.7 million of common stock under our 40 million share repurchase program, and have declared our quarterly dividend of $0.10 per share. Importantly, our capital position remains solid to support our ongoing growth initiatives.

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Slide 19 shows a reconciliation of the change in tangible common equity and related tangible book value. As expected, during the quarter, the Federal Reserve Board continued its cycle of interest rate increases with a 75 basis point increase at each of the July and September meetings. The Fed has also messaged further rate increases to occur in the fourth quarter of 2022 and in the first quarter of 2023.

Despite the considerable volatility during the quarter due to the rising interest rate environment, we proactively managed our securities portfolio to prevent outsize pressure on our tangible book value per share. As a result, we saw a modest decline in tangible book value to $15.37 as of September 30, 2022, as compared to $15.69 as of June 30, 2022, primarily driven by a tax affected mark-to-market adjustment to the fair value of our available for sales securities portfolio and largely offset by quarterly earnings in capital management.

We're also pleased with our average tangible common equity of 6% for the quarter in comparison to 6.07% from the previous quarter, indicating a stable capital position during another quarter of high volatility. We believe the tangible common equity ratio is important to determine the likelihood of unrealized securities losses to potentially become realized and have established a general target of 6%.

As a reminder, during the previous quarter, we judiciously reduced our exposure to interest rate volatility in order to protect our book value with a significant transfer of $277.3 million of available for sale securities to held to maturity.

While we are focused on driving loan growth to accelerate the earnings power of the bank, we are equally as focused on maintaining our strict underwriting standards to ensure the credit quality of our loan portfolio. During the third quarter, our loan growth exceeded our expectations as our recently hired bankers have successfully built their pipeline and have started to close new loan originations. That said, we anticipate loan growth to moderate in the fourth quarter to approximately 2% to 3% sequential growth, led mainly by our commercial portfolios.

We remain confident in our current liquidity position, access to capital and borrowing capacity, and our market leading low-cost deposit base, supporting our resilient capital level as we triangulate to avoid incurring realized losses. Importantly, fluctuations from mark-to-market changes have no impact on our Tier 1 capital position.

Looking to the remainder of the year, the forward curve suggests substantial rate increases through the remainder of 2022 and early in 2023. Despite economic uncertainty in the near term, we are confident that we will exceed the high end of our previously provided ranges of core pre-tax pre-provision earnings of $120 million and net interest income of $230 million by approximately $8 million to $10 million across both ranges.

As the Fed continues to raise interest rates, generally speaking, the benefit through our net interest income from our asset sensitivity reduces. So far, we've experienced significant benefit to our net interest income following the first 300 basis points of rate increases. Going forward, we estimate an approximately $2 million increase in annual net interest income for each 25 basis point increase in short term forward curve rates for the near term.

We remind investors that we expect approximately $400 million to $500 million of runoff in political deposits during the fourth quarter, which we expect to have a muting effect on interest income from rate increases during the fourth quarter.

As Priscilla noted, we are pleased with the bank's record results again this quarter as they firmly demonstrate the successful execution of our strategic plan to grow the bank while improving profitability and returns.

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Overall, our balance sheet remains positioned to benefit from the rising rate cycle. While our total deposit beta has been very low through the first 300 basis points of increases, it has been increasing as the pace of rate increases has notably accelerated, and we naturally expect our deposit beta to further increase as the rate cycle progresses.

That said, we believe our deposit beta will remain low compared to peers to deliver sustainable net interest margin and continued earnings growth.

With that, I'd like to ask the Operator to open up the lines for any questions. Operator?

Operator

Thank you. We will now be conducting a question-and-answer session.

Our first question is from Alex Twerdahl with Piper Sandler. Please proceed with your question.

Alex Twerdahl

First off, I was just hoping, Jason, can you walk us through the moving parts in the balance sheet? We're expecting the political deposits to flow out in the fourth quarter, as you said. Is the expectation to replace that with borrowings temporarily, or do you have enough cash flow from your securities portfolio to offset at least some of that outflow?

Jason Darby

Yes. Thanks, Alex, for that question and great to talk to you again. Yes, I think there'll be some level of use of short-term borrowings. We still have a fair amount of cash to deploy. We've timed our resale agreements. There was roughly $200 million of that at the end of the quarter to mature during the first half of the fourth quarter, and we'll be using that to match off against the political deposit outflow.

Then the spreads on the securities portfolio that have certainly gotten wider, which has made it a little bit tougher to sell at a place where we think is appropriate from a loss taking point of view, so likely, we'll look to short-term borrowings to fill the gap while the political deposits exit the bank. If things go as we're hoping and expecting, as deposits begin to rebuild in the first quarter on the next political cycle, we'll look to move the short-term borrowings off the balance sheet.

That's pretty much the direction on how we see the balance sheet working for the fourth quarter and what we think we'll be doing heading into the first quarter.

Priscilla Sims Brown

I just want to add to that, Alex, I think you know this, I know you know this, but political deposits continue to represent less than 17%. In fact, they declined slightly in the quarter. In fact, as you look at net new non-political deposits, we saw that across all our customer segments, but primarily in the sustainability area. So, we do think there are also ways to offset that across other customer segments.

Alex Twerdahl

That's great. With some of the lenders that you brought on and presumably talking to new customers, is there a deposit opportunity presented through them as well?

Priscilla Sims Brown

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Yes, that's right.

Jason Darby

Yes. The relationship with bankers are exactly that. The idea really is not to be transactors. We're looking for key banking relationships, and ordinarily, we're looking for deposits to come along with lending opportunities.

And also, just a reminder, we still have a fully built out deposit gathering franchise that focuses mainly on deposit-based customers as well. So, the mix between the lenders gathering deposit relationships as well as our existing franchise should be in a really good spot to continue to drive deposits that are outside the political base that Priscilla was referring to.

Alex Twerdahl

That's great, and then historically, your deposit bases have been pretty low, and I know you alluded to them possibly going up higher as we're expecting from everybody. I'm just curious, if you're seeing anything or hearing anything different from your customers this cycle relative to the last cycle just given how quickly rates have increased and maybe they're a little bit more visible this time around.

Priscilla Sims Brown

I will start out by mentioning that DDA makes up about 56% of our deposits. We still have a low sensitivity to rate rises relative to industry peers in the market, and as you know, Alex, back in the 2017, 2018 period and the rate rises there, our deposit beta was only 3% compared to the market at around 20%. So, we don't see a reason currently why our beta should behave differently from past rate rise cycles because our customer mix is essentially about the chain.

Jason Darby

Yes, and then I'll add to that, sales leadership polls the customer facing bankers on a regular basis. Our executive leadership is virtually daily now in touch with sales leadership regarding customer feedback and kind of sensitivity to rates. So far, it's still been relatively benign. There hasn't been an incredible calling out for rising rates.

Now that's sort of at the center. On the margins, there definitely have been some exception pricing that we've been thinking about in order to address certain customers, but in general, we've tried to be proactive. As rates have risen, we've done some repricing in each of the first and second quarters, and we think that that's been a nice offensive/defensive move to make sure that customers don't feel like they're missing an opportunity elsewhere.

As rates continue to rise, we're anticipating being a little bit more aggressive in repricing strategies to continue to kind of follow the rates up and make sure our customers feel appropriately compensated for their deposits.

Alex Twerdahl

Great. That's excellent color. Then just my last question, I think you alluded to in the press release, and you talked in the past about how some of the commercial real estate successes you've had has been offset by allowing some loans that maybe were not fully to your liking to run off the balance sheet. I'm just curious if the loans that you didn't want to pursue for the refinancing, if we got to the point where maybe that piece of the pie is done.

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Jason Darby

We're getting much closer to that being done, and I think maybe I'll point out that we had another pretty decent sized quarter of what I kind of call treadmill effect, Take the multifamily portfolio, for example. We've had an increase in the net portfolio balances, but the reality of it is we had about $91 million of originations in the portfolio during the quarter offset by about $57 million, $58 million of payoffs or runoffs that we're allowing on select credits.

All of that you should be seeing in the corresponding criticized assets improvement and, the delta that we're measuring, we're down to about $70 million between what's left in our classified and criticized versus our total non-accruals in the commercial space. Within that, there still is an opportunity for continued improvement, although that margin is shrinking.

As we get a little bit further, probably out past the fourth quarter, I would expect that we'd be in a spot where originations would really be balance sheet opportunities for us.

I think the one thing to also note is that because of the amount of opportunities we're generating in the pipeline right now, we definitely have the opportunity here to be a little bit more choosy than we've been in the past. Credit quality, on an ongoing basis is extremely important to us and we'll be managing our opportunities relative to the credit worthiness of the deal, and maybe even a little bit closer than historical if the liquidity market continues to tighten up a little bit.

Operator

Thank you. Our next question is from Chris O'Connell with KBW. Please proceed with your question.

Chris O'Connell

Why don't you start off on the margin here given the political customer moves this quarter and the expectations for next quarter. Obviously, very strong NIM improvement in 3Q and good outlook on the overall NII guide. But just given how large the flows are in some of the earlier questions, I was hoping you could provide a little bit of color around how you see the margin moving over 4Q and into 1Q environment.

Jason Darby

In terms of margin, I think there's still room for expansion. I don't see margin expanding in a dramatic fashion like we had in this quarter, probably nowhere near that heading into Q4. Mainly, I think you'll see top line improvement in the margin as we continue to benefit from the rate rises. We're modeling in another 125 basis points between the November and December Fed meetings.

I think with our asset composition mix, we'll still see some margin improvement on the top side, but we are expecting some corresponding increase on the interest-bearing side simply because of what I was referring to earlier with Alex, that we'll probably end up looking a little bit more at short term borrowings to fund some of the loan growth or some of the deposit outflows that will happen in the fourth quarter.

I think, generally speaking, the impact would be fairly neutral to the margin, maybe a slight improvement overall, and I think NII would follow very similarly in the fourth quarter as well.

Moving into Q1 and forward, and we'll give more guidance for what 2023 looks like when we do our fourth quarter call, but looking at Q1 and forward, thinking a little bit about the political cycle, historically, there's been a nice rebuild of deposits that have started the first quarter after a significant election, and obviously, midterms would qualify as one of those.

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Therefore, if we're able to move some of that new liquidity against the borrowings, we should be able to see some margin expansion again in the first quarter, 2023. Beyond that, I'll reserve until we update you on full year guidance in 2023.

Chris O'Connell

Got it, and as far as the increasing betas in general on the deposit side, I mean, is 25% what you're using for the full cycle before, is that still similar to what you're thinking about now? Can you just remind us, is that total deposit or interest-bearing beta?

Jason Darby

Yes. It was interest bearing beta. In general, sitting with a greater than 50-50 DDA to IBA mix or MMA mix, we typically, on total cost of funds, just as a rule of thumb, say about half of that is our total cost beta, but 25 was on IBA.

I think the rates have certainly risen very, very rapidly, maybe even more rapidly than we were thinking back when we gave our past guidance. We're now looking at, on a model basis, about 33% beta going forward for the next at least 125 basis points of rate increases.

Now again, that's a number, obviously, it'll blend its way out. There's CD repricings and other things that need to occur, but that's sort of a top line number for beta as we're thinking about it.

Chris O'Connell

Got it, and then on the loan portfolio, was there any residential mortgage purchases this quarter?

Jason Darby

Yes, there were. Thanks for asking that. We had a decent amount of growth again in the resi portfolio, but the majority of that, about $65 million, were purchased pools that had specific CRA credit qualification, and specifically, in markets that are outside of New York, where the bank can use additional CRA credits.

We sort of opportunistically found pools. We had been working on them in the second quarter, and we felt this was an appropriate time to make those make those asset purchases. I do not see us making any further purchases in the fourth quarter, and we'll relook at what we're doing in the purchase side of our resi portfolio for 2023 and update you on that next quarter.

Chris O'Connell

Got it. Switching gears to the credit side, can you just talk a little bit about what you're seeing in the solar lending portfolio and what kind of yields you're getting there, and the overall outlook that you have in terms of credit quality and kind of risk adjusted returns given this portion of the cycle? Just remind us if that's floating rate and what the spread is there.

Jason Darby

Absolutely. I think we're now up to around, and this is specifically in the consumer solar, we're up to about $420 million of consumer solar book balances. I think we're pretty close to where we want to be in that portfolio right now. I would expect to see that decline in terms of growth certainly heading into Q4.

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Generally speaking, the consumer solar flow, we do that through now three different arrangements. Two of those arrangements we've completed our quota. We pulled through as much as we could earlier on in the cycle so that we weren't buying into the fourth quarter, and then we still have some remainder with an additional provider that will be probably far less than what you've seen in terms of the volume that we put on throughout the first three quarters of the year.

As they've been coming on, right now, there are about 6.75, 6.50, somewhere in there. I think it was a little bit lower as we brought them on during the quarter, but the more recent purchases have been 6.75, and we closely look at the charge off rates on those portfolios. Generally speaking, it's been between 75 basis points and 1% on the charge offs and we think that the risk adjusted return is appropriate for those assets. The majority of the purchases are in a fixed rate position.

So, as we buy them, obviously, they're locked in, but I think in general, again, we're in a good spot relative to our consumer solar appetite right now. The charge off trend's been pretty steady. If we look at it through the NCOs, it's been a very, very stable number over the past four quarters and we think we're adequately covered from an allowance point of view should anything else tick up on us.

Chris O'Connell

Okay, great. On the expense move this quarter, a little higher than I anticipated. Wondering if you could go through any drivers there and if there's going to be any offsets into the fourth quarter, and just in general, how you guys are thinking about expense growth as, I know you have a number of initiatives and growth buildouts coming on over the next few quarters.

Jason Darby

Yes. I think categorically, we were pretty tight quarter over-quarter on most expense lines. The obvious drivers this quarter were really in our comp and benefits and in our professional fees. I'll take a quick run through on the comp and benefits side, and then I'll touch on professional.

Comp and benefits, there was an expected increase at least through our lens, coming in the second and third quarter as we've rounded out our executive hires. We did a bunch of hiring towards the end of the second quarter and on through the early part of the third quarter, as well as filling out the remainder of our staffing plan for 2022, which largely included the rest of the sales bankers.

We started to see the first full quarter of true salary expense flowing through. There are other elements that have gone through that I consider more transitory in nature. Some commission expense was a little bit higher as it trailed on some of the mortgage production and the annual bonus accrual increased a little bit as well.

There are also, as part of our hiring processes, as the market's kind of required, we've had some sign on and some retention bonuses that have flowed through in the quarter. I think those two items, meaning the compensation or the incentive compensation and the sign on and the recruiting bonuses, those to me are transitory and I don't see those kind of following us through.

The number that we're sort of at right now, I think that's a good number to look at for the fourth quarter as we kind of fill out any last remnants of our hiring practices into the fourth quarter.

On professional fees, I think there's two things here. Number one, we've used some outsource firms to help us finish up on some compliance and audit related requirements as we get towards the end of the year. Additionally, we've stopped taking ABOC expenses as non-core given we are this far away from that

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particular transaction. There was a little bit of tail expenses that pulled through that we had just gotten but on a normal run rate that I wouldn't expect to see coming forward as well.

Chris O'Connell

Okay, great. Lastly, I may have missed this in the opening comments, but was there any share repurchases this quarter, and can you just update us on how you're thinking about utilization going forward?

Jason Darby

Yes. There was a very small amount of share repurchases this quarter. We deployed about $700,000 in repurchase activity. We still have our share repurchase program and availability open. There's still about $28 million on that.

However, I think as we look out to the economic forecast and also look at some of the continued volatility that's happened in the interest rate market, being a little bit prudent on capital deployment and making sure we have a balanced approach towards our tangible common equity, I think has become a more important decision point for us.

Not saying that we're backing away from share repurchases at all, or that we think our stock is expensive, that's not the case, but again, looking at volatility and being unable to predict that, and also knowing that we have CECL upcoming, we've been a little bit more prudent, on capital in the quarter to make sure that we're keeping ourselves in our target ranges of about 6% TCE and having appropriate capital available for CECL build if market conditions worsen and then we need to deploy more capital against that when we adopt in 2023.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back over to Priscilla for any closing comments.

Priscilla Sims Brown

Thank you, Operator, and most of all, thank you all on the line for your time today and for your continued interest in the bank. We really do appreciate your questions. We know that we'll be following up with some of you over the coming days. We are excited because we like talking about our optimism for the future of Amalgamated.

We're also thrilled to see the tangible results of our strategy translate to another quarter of record results. Importantly, we are not standing still, and we remain excited with the many opportunities that lie ahead of us as we work to grow Amalgamated through $10 billion in assets.

Thank you again for your time and we look forward to continuing the dialogue.

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