Fourth Quarter 2023
Earnings Call Transcript

January 25, 2024

CORPORATE PARTICIPANTS

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

Priscilla Sims Brown, *President and Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Alexander Twerdahl, *Piper Sandler & Co*

Janet Lee, *J.P. Morgan*

Christopher O'Connell, *Keefe Bruyette & Woods*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Corporation Fourth Quarter and Full Year 2023 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.

Jason Darby

Thank you, Operator, and good morning, everyone. We appreciate your participation in our fourth quarter 2023 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 our 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 information or statements. Investors should refer to Slide 2 of our earnings deck, as well as our 2022 10-K filed on March 9, 2023, for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

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

Thank you, Jason, and good morning, everyone.

I'm happy to discuss our fourth quarter results, and so thankful to our employees whose talent and dedication to our Company and our mission make winning in difficult situations possible, and for our investors who clearly see our differentiated business model that enables our ability to rise above peer returns. It is incredibly rewarding to see your belief in our bank reflected in the price appreciation of our stock during the recent month.

Thinking about the eventful year of 2023, perhaps what I'm most grateful for is the stability and deep entrenchment we have with our loyal customers, who support us when it matters most like during the banking crisis earlier in the year. One of my favorite stories from that period was when one of our best customers simply told one of our bankers, "We're good," and then immediately asked, "How are you doing?" That level of customer appreciation transcends the standard vocabulary of customer service and is the fabric that constitutes the high quality of our deposit franchise. That is what makes Amalgamated different, and it continues to shine through in our fourth quarter results.

Looking at our results more closely, our deposit franchise is a clear competitive advantage, as we delivered stellar deposit growth in the fourth quarter, driven by our political, but also our union and nonprofit segments. Because of our neutral balance sheet strategy, our on-balance sheet reported growth metrics of $171 million show only part of our deposit story, so I'll take a moment to elaborate on some details.

Starting with our political deposits, we saw strong inflows of $236 million as the presidential election continues to unfold. This growth is ahead of our historical trends and we're optimistic that we will continue to see political deposits build through the early fall of 2024.

Moving to our nonprofit and union segments, we also experienced deposit strength, boasting new bank relationships of $203 million. Understanding that these sales cycles are long, we're seeing our pipeline grow and we're optimistic as we continue winning sizable relationships over time.

In addition to the new to bank wins, we also saw nice growth in our existing relationships during this quarter. As we continue to grow, a portion of the new to bank deposits are transitional and staged to move to our trust business.

Additionally, we're moving out of the accumulation phase for political deposits, as we are within 12 months of the 2024 election and we now treat newly-raised political deposits as more transactional with a shorter duration. As a result, and in keeping with our neutral balance sheet strategy, we moved $303 million of transactional political deposits and transitional trust business deposits off-balance sheet into our reciprocal network to mitigate the impact of their eventual outflow. We're earning a positive spread on these deposits, which is recorded in noninterest income and which we expect to continue through the second quarter before these deposits begin to be utilized in the third and fourth quarters.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

To summarize, we had a strong deposit-gathering performance during the quarter, with well over $400 million in new deposits. While we recognize these deposit metrics reflect point-in-time balances, we nonetheless are operating in an enviable position of managing deposit liquidity instead of searching for it. In today's highly constrained liquidity environment, we're punching well above our weight, giving us many options to deliver returns that are above peers.

I'd now like to spend some time telling you about what we've been doing with our liquidity and how we are structuring our balance sheet for sustainable profitability and returns.

During the quarter, we utilized our on-balance sheet deposits to reduce our much higher-cost brokered CDs by nearly $150 million. As a reminder, we have more than $300 million in wholesale borrowings maturing through the first half of 2024, timed to coincide with our political deposit accumulation. This funding mix shift will help us to mitigate further deposit cost pressure and potentially provide modest margin expansion if deposit cost pressures begin to ease,

On the other side of our balance sheet, we continue to fund loan growth predominantly from the runoff of our traditional securities portfolio, augmented by select security sales. As we change the mix of our assets from securities to loans, balance sheet health will benefit, as the portfolio amortization will naturally reduce unrealized loss positions and replace those assets with loans at market rates. It is also worth a reminder that we have sold $550 million of total securities since the second quarter of 2022, and we have been pleased with the beneficial repositioning that has occurred within the last 18 months.

Central to our prospective balance sheet structure is the repricing of lower-yielding loans that are maturing. During 2024, we have nearly $225 million in maturing lower-priced commercial real estate loans and a total of nearly $375 million in maturing loans. When paired with our impact lending business, this makes for a terrific opportunity to drive margin expansion and profitability. As discussed last quarter, our margin was reaching an inflection point, and I am pleased that our NIM expanded 15 basis points to 3.44% in the fourth quarter, helped by a 12-basis point increase in our loan yields to 4.68%.

Broadly, I couldn't be more excited about our business space of social responsibility and banking. It is a space that we expect to thrive in the years to come and one where we have a dominant position. As we've said on prior calls, the market for climate risk alone is significant, with an estimated $3 trillion of investment needed over the next 10 years in order for the U.S. to achieve a goal of net zero emissions by 2050. The Inflation Reduction Act signed by President Biden in 2022 is a catalyst as well, as monies are being funneled to critical projects in the renewables, infrastructure, and water segments of the market, all areas that will need additional capital as projects get underway, and this is capital that we are well-suited to provide.

When paired with our impact lending model, we have a potent ability to bring this specialization to life, accompanied by our deposit-gathering performance. Our deposit franchise is truly unique and has stood up to the most difficult of tests with undoubted success time and time again and proven once more with some significant segment wins during the quarter. Our ability to perform also leads to sustainable profitability and returns, whether that's in the nonprofit segment where we have only a small share, but see an opportunity to meaningfully grow, or in labor unions, where we're well-known, but still only have a small share of the nation's entire labor market. Amalgamated has something very few other banks have; an undisputed reason to win the ties.

Wrapping up, I'm pleased with our results, and we are tracking according to our plan. As we build capital and earning space, the strength in our financial results and the visibility that we have for the year ahead provides real optionality for our Management team as we review a wide range of possibilities to enhance our growth profile. That said, we recognize we are less than a year removed from the highly disruptive banking turmoil in early 2023, and we're cognizant of the higher for however long interest rate

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-02621-604-929-1352www.viavid.com

environment. Patience will be a key theme for us in 2024 as we execute our number-one priority: to be good stewards of our customers' money. As I always say, we're America's socially responsible bank.

Jason, my friend and partner, over to you.

Jason Darby

Thanks, Priscilla.

Hi there, and good morning, everyone.

I'm going to start off on Slide 4 of the earnings deck. As Priscilla mentioned, our 2023 fourth quarter produced solid results.

Net income was $22.7 million or $0.74 per diluted share, and core net income, a non-GAAP measure, was $22.1 million or $0.72 per diluted share.

The quarter results featured significant growth in deposits across multiple segments, increased net interest income, margin expansion, and our leverage ratio crossed 8%, all of which I will discuss in further detail.

Additionally, during the quarter, we have booked a $3.3 million adjustment to tax expense to record additional liabilities and a write-down of deferred tax assets driven by a state and city tax examination that reduced the bank's net operating loss carry-forwards. The tax adjustment detracted $0.11 per share from both GAAP and core net income during the quarter, but we do not expect further tax adjustments of significance related to the matter. Taken as a whole, we are very pleased with our core operating performance.

Turning to Slide 5, I'd like to make a quick note that we are now excluding the timing impact of tax credits or accelerated depreciation related to our solar tax equity investments in our normal core net income calculation to simplify our business performance presentation. During the quarter, we had one new solar tax equity transaction and an additional solar grid project go live related to a previously booked transaction. This resulted in recognition of $3.3 million of solar tax credit income that was excluded from our core net income metrics. For forecasting purposes, we have updated the expected effects of these transactions for the next four quarters.

Moving to Slide 7, deposits on December 31, 2023, were $7 billion, an increase of $21.1 million from the linked quarter. As Priscilla detailed earlier, on-balance sheet deposits, excluding brokered CDs, increased by $170.9 million or 2.6% to $6.8 billion, but there was significant additional deposit growth during the quarter. In keeping with our neutral balance sheet strategy, we are managing $303 million of deposits off-balance sheet, comprised primarily of transactional political deposits and transitional deposits scheduled for our trust business.

Looking at some deposit metrics, noninterest-bearing deposits, excluding brokered CDs, represent approximately 43% of average deposits, as well as 43% of ending deposits, contributing to an average cost of deposits of 125 basis points in the fourth quarter, up 14 basis points from the linked quarter. While we exceeded our expectations with the level of noninterest-bearing deposits given the rate environment, we believe this also reflects our deposit franchise differentiation well.

Checking in on political deposits on Slide 9, we were up to approximately $1.2 billion as of December 31, 2023, an increase of $236.1 million on a linked quarter basis, and through January 17, 2024, we've had a

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

further $32.3 million of political deposit inflows. As the election cycle continues, we are optimistic to match or exceed our previous high watermark in the coming quarters.

Jumping ahead to Slides 10 and 11, the book value of our traditional securities portfolio decreased $40.5 million during the quarter, primarily as a result of $36.8 million in strategic sales and $48.3 million in traditional securities pay-downs, while net PACE assessment growth was $21.5 million. I'd like to note that our PACE originations during the quarter were strong at nearly $60 million, and those originations were offset mainly by prepayments and normal cash receipts related to end-of-year tax remittances.

Our pretax unrealized loss position in our available for sale securities portfolio was $102.3 million or 6.5% of the total portfolio balance, improving by $26.4 million from the previous quarter, largely as a result of the back up in rates towards the end of the year. Importantly, our AFS portfolio duration was only two years, reflecting our conservative investment decisions.

Turning to Slide 12, net loans receivable at December 31, 2023, were $4.3 billion, an increase of $48.7 million or 1.1% compared to the linked quarter. This increase was primarily driven by a $53.2 million increase in multifamily loans; a $29.3 million increase in commercial real estate portfolio; and a $16.1 million increase in residential loans; offset by $39.4 million decrease in commercial and industrial loans mainly related to pay-downs on revolving lines of credit. Additionally, we have furnished a composition of our multifamily portfolio to better illustrate our exposure to certain rent-controlled legislation, and at year end, less than 44% was related to pre-1974 or Section 8 rules.

Finishing up on loans, the yield in our total loans increased 12 basis points to 4.68% during the quarter. The loan yield increase was mainly attributed to the improved yield of new loans generated during the previous quarters, and we saw increases across all individual asset classes.

On Slide 14, net interest margin was 3.44% for the fourth quarter of 2023, an increase of 15 basis points from 3.29% in the linked quarter. The increase was largely due to increased yields and average balances of interest-earning assets, as well as less pressure on cost of funds as deposits replaced nearly $150 million of high-cost brokered CDs. While we are rather pleased with our margin expansion, we are acutely aware of the continuing higher rate environment and the ongoing competition for deposits. While we expect to see asset yields continue to grow as we turn over our balance sheet, we also believe deposit costs will continue to rise as well. A key advantage for us in 2024 will be maturing of more than $300 million of higher-cost borrowings that can be replaced with lower-cost deposits.

On Page 15, core noninterest income, a non-GAAP measure, was $8.5 million compared to $7.8 million in the linked quarter. The increase was primarily related to fees from our treasury bill investment offering, as well as fees earned from off-balance sheet reciprocal deposits.

On Page 16, core noninterest expense, also a non-GAAP measure, was $37.8 million, which is an increase of $0.5 million from the third quarter of 2023. This increase was mainly driven by a $0.2 million increase in professional fees and a $0.4 million increase in other expenses, primarily as a result of accelerated residential loan servicing costs.

Moving to Slide 17, nonperforming assets totaled $34.2 million or 0.4% of period-end total assets at December 31, 2023. Our criticized assets increased by $22 million, largely related to the downgrade of an $18.7 million commercial industrial loan to substandard and accruing.

On Slide 18, the allowance for credit losses on loans decreased $2.1 million to $65.7 million at December 31, 2023, and the ratio of allowance to total loans was 1.49%, a decrease of 16 basis points from 1.55% in the linked quarter. Provision for credit losses totaled an expense of $3.8 million for the fourth quarter compared to an expense of $2 million in the third quarter of 2023. The expense in the fourth quarter is

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.

1-888-562-02621-604-929-1352www.viavid.com

primarily driven by a $4.7 million construction loan charge-off, partially offset by improvements in macroeconomic forecasts used in the CECL model.

Continuing to Slide 19, we look at some of our key performance metrics during the fourth quarter.

As previously discussed, we have been laser-focused on building our capital position, and so our Tier 1 leverage ratio improved 18 basis points to 8.07%, and we are on track to achieve our 8.5% target by the second quarter of 2024.

Our tangible book value per share improved by a healthy 7.5% to $18.74. That said, it should be noted that we had a $19.3 million improvement in book equity related to the tax affected mark-to-market on our AFS securities portfolio.

We also remain pleased with our tangible common equity to tangible assets ratio of 7.16% for the quarter in comparison to 6.72% from the previous quarter.

Another key metric for us of focus is our core revenue per share as we continue to grow our net interest income earnings profile and also our ability to drive more meaningful noninterest income. Our core revenue per diluted share was $2.48 for the fourth quarter.

Now, turning to Slide 20, and as is our normal cadence, we are initiating full year 2024 guidance of core pretax pre-provision earnings between $143 million and $148 million and net interest income of $268 million to $272 million. While we don't expect any significant Fed rate changes during the first half of 2024, we continue to consider the forward curve to inform our NII guidance.

Additionally, we are initiating a conditional balance sheet growth target of approximately 3% starting in the second half of 2024. We intend to continue with our neutral balance sheet strategy through the first half of 2024 as we patiently pursue our stated Tier 1 leverage target of approximately 8.5%.

Additionally, we will be monitoring a number of macroeconomic factors to inform our decision making, and our credit quality metrics will be key. Perhaps most importantly will be the performance of our deposit-gathering franchise throughout the year, with the understanding that we will see significant political deposit outflows in the fourth quarter when the presidential election concludes.

Briefly looking at the first quarter, we think our net interest margin has reached a point where we are cautiously optimistic for potential expansion of around five basis points. Correspondingly, we anticipate our net interest income to range between $66 million and $68 million. In addition to our NII guidance, we also estimate an approximate $1.6 million decline in annual NII for an immediate parallel 25-basis point decrease beyond what the forward curve currently suggests.

Wrapping up, we'd be remiss if we didn't remember that 2023 was a year in banking as challenging as any. The stress and pressure was real, and yet we emerged stronger. While we are quite pleased with our fourth quarter and full year results, we aim to strike a cautious outlook for 2024 as there remains much uncertainty. One thing we are quite certain of, socially responsible banking can do well financially and do good for the world at the same time, and we look forward to banking our loyal change-maker customers in 2024 and for many years to come.

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

Operator

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Thank you. Our first question comes from the line of Alex Twerdahl with Piper Sandler. Please proceed with your question.

Alexander Twerdahl

First off, within the context of the neutral balance sheet for the first half of the year, assuming we're going to get some remixing from securities into loans. I know we had a little bit of your work cut out for you just to keep the loan portfolio neutral given the maturities that you cited, but maybe just talk a little bit about the expectations for the loan portfolio for the first half of the year. Specifically, some of the sectors within your various business lines that we might expect to see some good momentum over the next couple of quarters.

Jason Darby

I think for the upcoming two quarters, as we think about that neutral balance sheet strategy, we've got a nice mix of lending opportunities within our pipeline to support all of that. Also, looking at some of the maturities we have on the borrowings profile, I think there'll be some interesting movement in terms of our funding mix and our overall asset classes. With regard to the lending pipeline in particular, we're pretty excited about some of the opportunities we're seeing in our C&I pipeline. When we think about our forecast for the first quarter, we have a decent amount of loans that we feel are highly probable of closing. When I think about where we see a lot of opportunity, we think community solar will be one of the asset classes that we'll see some advancement in, and we think battery storage will be another, which is in that climate risk space. We also feel like our real estate lending from an impact perspective has some really good opportunities as well. We're seeing a lot of opportunity in industrial real estate. We're seeing a lot of opportunity in homeless shelters, and also education, so those might be some of the asset classes where we see some real runway in the first half of the year and some of the things that we're focusing on to build up that lending part of our business for the 2024 plan year.

Alexander Twerdahl

In terms of some of those segments, just as we think about sort of rate sensitivity. I know real estate in general has been maybe a little bit slower as the five year is a little bit higher and maybe people look at deals and maybe they pencil a little bit better as rates come down. Is there a lot of rate sensitivity or deals that don't pencil that maybe when rates come down, they work better or are some of these lines of businesses kind of loans and expansions and things that have to get done and maybe benefit enough from some of the Inflation Reduction Act tax cuts and things like that, that maybe there's just less sensitivity to actually what's going on with the rates?

Jason Darby

Yes, I think there's a mix of both. With regard to rate sensitivity, there are certain deals that are certainly susceptible or feeling the pressure regarding the higher rates, and we've talked about this quite a bit. For new deals to the bank, things that may seem a little stretched, we are in a position to perhaps find alternate players to help satisfy or work with those particular customers that are in our mission-aligned space. But with our neutral balance sheet strategy, we still maintain that ability to be selective in terms of pricing and also the related credit quality, and we'll continue to move along that path.

Now, when I think about the loans that are rolling over and that will come due for maturity during 2024, one of the things that's actually quite helpful is the low LTVs that we have on the portfolio assets in place right now. We'll be perfectly willing to work with borrowers to fund an opportunity to refinance with us and maybe use a little bit of that LTV embedded value to help find a path for them to remain with the bank. I think that's a couple of the ways that we're thinking about the portfolio opportunities and maybe some of

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

the sensitivities at least for the first half of the year. When we get to the second half, maybe we'll see some pressure release from the overall macro rate environment. I think that'll bring more players into the basket of credit where we feel it's appropriate and we should be able to find more opportunities in the second half the year if the rates abate a little bit.

Alexander Twerdahl

Then can you just maybe just walk through and help us understand a little bit better the strategy in moving the $303 million off-balance sheet? First off, would those be included in the political deposit? I think you said primarily they're political deposits in the political deposit slide, the $1.2 billion total. Then, is it really more to provide insulation as some of the borrowings come due and they'll come back on-balance sheet to replace those as those come due, or how should we think about kind of the off-balance sheet piece in the context of the overall balance sheet over the next couple of quarters as we head into the election?

Priscilla Sims Brown

You can really think of that as deposits in two categories. One is, yes, we do expect that political deposits will peak probably slightly earlier than we've seen in the past just because of the ramp-up that we've seen, which has been early and fast. Where you normally might see this drop off occur in fourth, you might see it toward the end of second or early third. Then the other category would be, given our relationship with clients is robust across businesses, we have clients who come to us primarily in the not for profit space, coming from, by the way, money center banks, who are looking at a really robust relationship across a number of lines, including some of their pension business, which ultimately, we know is moving into trust. In fact, we've seen some of it occur already so far since the quarter end. Those were off-balance sheet, because they're ultimately going to be going to the trust business, and actually the movement has started.

Jason Darby

I think to add on to Priscilla's comment, the nature of the political deposits as we get a little bit closer to the election and we're now inside of a year, those become, in our view, much more transactional in nature with shorter duration. The ability for us to deploy funds against that is a bit limited. And I think more importantly, we're certainly prioritizing capital and the building of that as one of our key areas of focus and key objectives and moving some of the deposits off-balance sheet helps maintain our upward trajectory on capital. The other side of that strategy really gets into how we've staged the wholesale funding that we have on our balance sheet right now. We have another $220 million coming due for maturity during the first half of this year of 2024. In a lot of ways we'll be bringing those deposits back onto balance sheet to match off the funding extinguishment on the wholesale side as we go into the other half of this year.

Alexander Twerdahl

Is it fair to assume that sort of the economics of moving off-balance sheet and the fee generated would be pretty comparable if they were just invested in cash if they're on your balance sheet?

Priscilla Sims Brown

Yes.

Jason Darby

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Yes. We've been able to negotiate a pretty competitive rate for the off-balance sheet movement, and some of that has started to flow through noninterest income. We made a conscious decision to think about the off-balance sheet deposits in that way. We obviously could have done something through NII, but I think the reality of it is we can have a flow-through of noninterest income on that spread and still maintain our capital targets at the same time, which is the essence of the strategy.

Operator

Our next question comes from the line of Janet Lee with J.P. Morgan. Please proceed with your question.

Janet Lee

I'll start with loan growth. Is the 2% to 3% sequential loan growth that we talked about still viable? It appears that the pay downs with (inaudible) revolving lines impacted the 4Q results, but if you look into 2024, can we expect the pace of loan growth to pick back up versus a more muted level of growth in the fourth quarter?

Jason Darby

Yes, I think that's exactly right. We're still very comfortable with a 2% to 3% sequential loan growth target, particularly in our neutral balance sheet position through the first half of the year. While we had some lower loan growth in the fourth quarter, the originations were certainly robust, and we also feel like the pipeline that we've got established, and I talked about a moment ago, will have some nice pull-through in the first quarter and the second quarter to support that.

Janet Lee

Okay, and the key driver of that's going to be from your impact lending area, including sustainability C&I and CRE?

Priscilla Sims Brown

That's correct.

Janet Lee

In your NII outlook for 2024, can you talk us through the interest-bearing deposit beta that's assumed on the way down?

Jason Darby

Absolutely, so on the way down, we're assuming a 35% deposit beta on our interest-bearing accounts, and that is a lower rate than what we would assume and have assumed on an up scenario simply because we just feel like the rates aren't going to be able to move as quickly in relation to how the Fed would move. We are taking a conservative approach, and 35% is a move, but I think there's obviously room for that to be an improved number, but we're not going to model it that way. I think we're going to be very cautious about how we would affect our customer's rates and make sure that our customer feels very comfortable with how they're being compensated by the bank and what the bank's pace of movement is. We certainly don't want to be one that's snap reacting to a drop in rates, because with our profile as it is right now, we have a little bit of an ability to be patient and really allow our customers to feel as much benefit as possible in a down rate scenario.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Janet Lee

In terms of your NII sensitivity, if I heard that right, $1.6 million annualized decline and NII for a 25-basis point movement in rates. I think it's little bit a step down versus maybe $0.5 million that you talked about in the prior quarter. What has changed over the past quarter in terms of your sensitivity, because a lot of other banks have reduced their asset sensitivity? It's on a more incremental basis, but still.

Jason Darby

I think the guidance that we were giving in the prior quarters was really mainly based on an increase in interest rates. That $0.5 million reduction was really on an increase in interest rates. As we start to think about it on the decrease, moving to $1.6 million is a little bit more of a shift for us from where we had previously been. Now, that said, what we're modeling is on top of what the forward curve is already suggesting. We've baked into our NII guidance for 2024 a conservative assumption around what the forward curve suggests for rate cuts through the back half. Really through all of '24, but accelerating in the back half of '24, and that additional $1.6 million,remember, it would be a parallel shift with short-term and long-term, but that $1.6 million is an incremental should the rates decline at a rate further than what the forward curve is currently suggesting.

Janet Lee

Thanks for the clarification, and lastly on PACE securities. Nice origination number, but some big offset with the pay downs. It looks like you keep originating at a stronger pace than what you guide to in terms of quarterly PACE securities growth, but if you look at on a net basis after normal levels of pay down for 2024, is $35 million to $40 million per quarter still a good pace to assume? Any reason why you would expect higher versus lower pace on both commercial and residential?

Jason Darby

I think the $35 million to $40 million is a comfortable mark for us to communicate for the future quarters. Part of the PACE arrangement really depends on the production flow, and we're not always able to predict with any certainty how much it's going to be greater than what we normally guide to. I think the payments in this particular quarter are higher than normal. We saw some prepayments that we were not expected relative to commercial PACE, and we also saw the normal seasonality of the year-end tax payments that provide a little bit of a higher netting effect, but in terms of production, I think the R-PACE is relatively stable, and when I usually quote that $35 million or $40 million, I'm thinking mainly of the R-PACE securities. C-PACE is somewhat selective, and as we find opportunities, we'll look to book those particular assets.

In terms of what we're thinking about from an opportunity space without thinking about flow, we see roughly $50 million to $100 million of potential C-PACE opportunities throughout this year, Janet. Again, coming back to that $35 million or $40 million, I don't normally include C-PACE in that thought process, that's normally my R-PACE flow. On top of that, you could potentially see another $50 million to $100 million in C-PACE throughout the year, albeit I don't see anything immediately happening in the first quarter, but there's still a possibility something could, but I don't see anything immediate in the first quarter.

Janet Lee

If I can squeeze in just one more question, sorry if I missed this in your remarks. Basically, all in, given the benefit of the fixed asset repricing and the deposit repricing down that's expected for 2024, can we assume a steady gradual improvement in NIM? Is that what is baked into the 2024 guide?

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Jason Darby

Yes, that is included in the 2024 guide. I did not specifically comment on our expectations on margin in my opening remarks, but the way that we've had it planned out, we do think there's a good possibility of incremental steady margin expansion, particularly given the turning over of the balance sheet. From a loan perspective, we have about $375 million or so of loans that are going to mature and need repricing during the year. About $225 million of that is related to our commercial lending portfolio. A Great opportunity to redeploy into some of the things we talked about earlier with our sustainability C&I and our impact real estate, and again, as I mentioned, we have a nice bit of funding mix changing that's going to occur during the first half of the year with about $220 million of term debt or brokered CDs maturing as well.

With the political deposit balances and other deposit balances that we're seeing come into the bank, we think there's a great opportunity to be able to offset any potential increases in the cost of funds on the deposit side with that mix shift down on the wholesale borrowings or wholesale fundings. It's reasonable to assume that we should have incremental growth on a steady and consistent basis in the margin for 2024. That said, lots of things could occur during the year, and obviously, as we see events unfold, and if we see increased pressure on cost of funds or there's other macroeconomic factors that occur that could change the outlook, that margin expansion may be a bit more muted or even compressed. But all things equal and based on the outlook that we see right now, we do think there is an opportunity for expansion.

Operator

Our next question comes from the line of Chris O'Connell with KBW. Please proceed with your question.

Christopher O'Connell

Just wanted to make sure, so the off-balance sheet deposits and the fee that you guys are getting off of those, that's included in the core PPNR guide, right?

Jason Darby

That is not included in the core pretax pre-provision guide. The reason being is that it's very difficult to predict how that's going to be able to play out over the course of the year. We've elected to exclude that from the pretax pre-provision guide, and we'll report it as a separate number so you can clearly see it in upcoming quarters. We don't want it to be something that could be baked into forecasts simply because a lot could change with regard to the political election cycle, and it's really difficult to actually predict how much we'll have available at any one point in time to continue to push into the off-balance sheet strategy.

Christopher O'Connell

That's helpful, and do you have a sense of just if they all say were to stick around off-balance sheet for the entirety of the first quarter, just what that impact would be?

Jason Darby

All things equal and based on the way we have it structured right now, I could see that contributing somewhere between $1 million and $1.5 million of noninterest income for the quarter.

Christopher O'Connell

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Then the increase, I think $22 million of the criticizing class (inaudible), I think you guys said in the prepared comments that $18.7 million was due to one C&I downgrade. Could you just kind of walk through any details around that credit?

Jason Darby

Yes, absolutely. This is a credit that is an agency deal, and it's been a little bit stressed by the higher rate environment. We saw a fairly quick downtick in the debt service coverage ratio. Albeit no payments have been missed and the loan is still accruing. Between the agent and ourselves, as we took a look at the current credit metrics, it warranted a movement to a substandard grade. Now, that said, there's a lot of interested parties in this particular credit. There's an amendment that's being worked on in the current quarter. We think there might be a couple of new lenders and some new money in the deal, and we're also working on potentially reducing our own exposure at the same time. All things equal, Chris, it's a conservative position on the loan. As it's a big loan for the bank.

We obviously don't want to be overly optimistic with regard to how we graded it at the end of the year, but at the same time, you can imagine the amount of attention that it's getting, not just from us, but from the other parties involved in the deal. The fact that there's new potential lenders coming into the deal, I think there's a really good opportunity for this to find its way to a strong amendment with a reduced rate and an improvement on the Company's ability to cash flow. With any luck, as we get towards the end of the year, this could potentially move back around into a pass grade. For now, that's the current status of the loan, and a lot remains to be seen here in the first quarter regarding the amendment process.

Christopher O'Connell

Got it, and do you guys have a specific reserve set against that?

Jason Darby

There's no specific reserve set against it, mainly because it's accruing. There may well be a small specific that is generated by the CECL model that relates to the accruing part of it, but I don't exactly know what that number is. If there is something, it's going to be reasonably small, but it obviously will alsodrive some of the overall coverage factors in our CECL model. The coverage on that particular asset class through CECL went up during the quarter.

Christopher O'Connell

Got it, and for the net charge-offs this quarter on the one construction loan, was that mostly previously reserved for?

Jason Darby

It was about 25% to 30% reserved for in the prior quarter. We charged off about $4.7 million on this one construction loan. We had about $1.3 million reserved for in prior quarters. We took an additional $3 million or so charge through the provision in the current quarter to charge this loan off. Now, we made an election to charge it off. We might've been able to take a little bit less of an overall position on this, but we made an election to charge it off simply because the outlook on repayment is murky and probably long in duration. Rather than have that loan really kind of go through death by a thousand cuts in terms of additional charges or reserves all throughout next year, we really wanted to have that be removed from our nonperforming metrics, have it flow through the P&L, and as we work it out over time, potentially get some type of recovery that we can work through in future years to come.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com

Christopher O'Connell

Got it, and was there any other driver of the decline in the allowance ratio, —not the dollar amount, but on the percentage basis?

Jason Darby

Yes, we did our annual refresh. We're a first year CECL adopter, but we do a refresh of our baseline loss rates at the end of the year. We did see a little bit of improvement in a couple of the different asset classes, so that was part of it, but the biggest driver of the decline was the release of that specific reserve through the charge-off. That $1.3 million was probably the biggest influencer of that decline, I think it was a 147 coverage ratio down from 155.

Christopher O'Connell

Got it, and as you guys are pretty well on track to hit your Tier 1 leverage ratio target just given the recent moves in the market, how are you guys thinking about any buyback utilization going forward?

Jason Darby

Buyback utilization remains an arrow in the quiver, Chris. It's certainly part of our capital plan. Where we buy is somewhat subjective, and we'll take a close look at where the price is relative to our tangible book value, but certainly it's going to be available for us to go to. I don't necessarily see us being at the same pace in terms of buybacks that we were in the earlier part of 2023, at least not for the immediate future.

Operator

There are no further questions in the queue. I'd like to hand the call back to Priscilla Sims Brown for closing remarks.

Priscilla Sims Brown

Thank you, Operator, and thank you all today for your questions and your continued interest. We appreciate all of that and the opportunity to discuss our fourth quarter, which demonstrates the strength and competitive advantages that Amalgamated enjoys as we look to the year ahead. While the market environment remains challenging, we're in a solid position, we believe, and our deposit franchise continues to deliver strong inflows as the presidential cycle is in full swing, as well as across our key customer segments where we are uniquely positioned to win. We like the pipeline. We think it's strong and it has delivered, as you've seen.

We're also a leader in sustainable lending, which will provide growth and margin expansion as we replace older, lower-yielding loans and securities with higher-yielding sustainable loans. This is a powerful mix shift that has started to deliver results, and we think it will continue over the year.

I couldn't be more excited about what the future holds for Amalgamated, for our shareholders and our customers. Thank you again for your time today, and we look forward to talking with some of you as you have detailed questions as we go along. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation.

ViaVid has made considerable efforts to provide an accurate transcription. There may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call. This transcript is being made available for information purposes only.
1-888-562-02621-604-929-1352www.viavid.com