
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2024
OR

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

For the transition period from to

Commission File Number 001-38290

Sterling Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

38-3163775
(I.R.S. Employer
Identification Number)

**One Towne Square, Suite 1900
Southfield, Michigan 48076
(248) 355-2400**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	SBT	Nasdaq Capital Market

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2024, 52,313,255 shares of the registrant's Common Stock were outstanding.

STERLING BANCORP, INC.
QUARTERLY REPORT ON FORM 10-Q
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STERLING BANCORP, INC.
Condensed Consolidated Balance Sheets (Unaudited)
(dollars in thousands)

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

	September 30, 2024	December 31, 2023
Assets		
Cash and due from banks	\$ 710,372	\$ 577,967
Interest-bearing time deposits with other banks	4,983	5,226
Debt securities available for sale, at fair value (amortized cost \$451,393 and \$440,211 at September 30, 2024 and December 31, 2023, respectively)	436,409	419,213
Equity securities	4,797	4,703
Loans, net of allowance for credit losses of \$24,970 and \$29,404 at September 30, 2024 and December 31, 2023, respectively	1,198,767	1,319,568
Accrued interest receivable	9,650	8,509
Mortgage servicing rights, net	1,338	1,542
Leasehold improvements and equipment, net	4,710	5,430
Operating lease right-of-use assets	10,765	11,454
Federal Home Loan Bank stock, at cost	18,423	18,923
Federal Reserve Bank stock, at cost	9,187	9,048
Company-owned life insurance	8,872	8,711
Deferred tax asset, net	15,023	16,959
Other assets	5,258	8,750
Total assets	<u>\$ 2,438,554</u>	<u>\$ 2,416,003</u>
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 31,276	\$ 35,245
Interest-bearing deposits	2,035,917	1,968,741
Total deposits	2,067,193	2,003,986
Federal Home Loan Bank borrowings	—	50,000
Operating lease liabilities	11,753	12,537
Other liabilities	24,999	21,757
Total liabilities	2,103,945	2,088,280
Shareholders' equity		
Preferred stock, authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, no par value, authorized 500,000,000 shares; issued and outstanding 52,313,933 shares and 52,070,361 shares at September 30, 2024 and December 31, 2023, respectively	84,323	84,323
Additional paid-in capital	18,210	16,660
Retained earnings	242,940	241,964
Accumulated other comprehensive loss	(10,864)	(15,224)
Total shareholders' equity	334,609	327,723
Total liabilities and shareholders' equity	<u>\$ 2,438,554</u>	<u>\$ 2,416,003</u>

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Condensed Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income				
Interest and fees on loans	\$ 20,506	\$ 21,663	\$ 62,095	\$ 65,715
Interest and dividends on investment securities and restricted stock	4,993	3,134	13,769	8,256
Interest on interest-bearing cash deposits	8,855	8,081	25,636	19,890
Total interest income	<u>34,354</u>	<u>32,878</u>	<u>101,500</u>	<u>93,861</u>
Interest expense				
Interest on deposits	20,736	16,391	58,186	39,537
Interest on Federal Home Loan Bank borrowings	—	250	367	743
Interest on Subordinated Notes	—	243	—	3,727
Total interest expense	<u>20,736</u>	<u>16,884</u>	<u>58,553</u>	<u>44,007</u>
Net interest income	13,618	15,994	42,947	49,854
Provision for (recovery of) credit losses	(2,338)	(1,942)	(4,376)	(4,170)
Net interest income after provision for (recovery of) credit losses	<u>15,956</u>	<u>17,936</u>	<u>47,323</u>	<u>54,024</u>
Non-interest income				
Service charges and fees	69	97	248	269
Loss on sale of investment securities	—	—	—	(2)
Gain on sale of mortgage loans held for sale	—	—	—	1,695
Unrealized gain (loss) on equity securities	160	(137)	94	(137)
Net servicing income	61	107	182	268
Income earned on company-owned life insurance	84	83	251	244
Other	5	234	215	236
Total non-interest income	<u>379</u>	<u>384</u>	<u>990</u>	<u>2,573</u>
Non-interest expense				
Salaries and employee benefits	8,540	8,753	25,196	27,437
Occupancy and equipment	2,019	2,110	6,108	6,273
Professional fees	3,005	4,242	7,334	10,984
FDIC insurance	260	274	784	794
Data processing	715	745	2,190	2,237
Other	1,071	1,578	4,313	5,155
Total non-interest expense	<u>15,610</u>	<u>17,702</u>	<u>45,925</u>	<u>52,880</u>
Income before income taxes	725	618	2,388	3,717
Income tax expense	868	304	1,412	1,367
Net income (loss)	<u>\$ (143)</u>	<u>\$ 314</u>	<u>\$ 976</u>	<u>\$ 2,350</u>
Income (loss) per share, basic and diluted	<u>\$ (0.00)</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Weighted average common shares outstanding:				
Basic	<u>51,059,012</u>	<u>50,699,967</u>	<u>50,941,371</u>	<u>50,606,566</u>
Diluted	<u>51,059,012</u>	<u>51,069,683</u>	<u>51,344,908</u>	<u>50,749,879</u>

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income (loss)	\$ (143)	\$ 314	\$ 976	\$ 2,350
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities, arising during the period, net of tax effect of \$1,998, \$(1,014), \$1,655 and \$(563), respectively	5,264	(2,671)	4,360	(1,479)
Reclassification adjustment for loss included in net income (loss) of \$—, \$—, \$— and \$2, respectively, included in loss on sale of investment securities, net of tax effect of \$—, \$—, \$— and \$1, respectively	—	—	—	1
Total other comprehensive income (loss)	5,264	(2,671)	4,360	(1,478)
Comprehensive income (loss)	<u>\$ 5,121</u>	<u>\$ (2,357)</u>	<u>\$ 5,336</u>	<u>\$ 872</u>

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2023	50,795,871	\$ 83,295	\$ 14,808	\$ 234,049	\$ (19,525)	\$ 312,627
Cumulative-effect adjustment of a change in accounting principle, net of tax, on adoption of ASU 2016-13	—	—	—	778	—	778
Cumulative-effect adjustment of a change in accounting principle, net of tax, on adoption of ASU 2022-02	—	—	—	(276)	—	(276)
Net loss	—	—	—	(503)	—	(503)
Repurchase of restricted shares to pay employee tax liability	(12,166)	—	(75)	—	—	(75)
Stock-based compensation	24,411	—	173	—	—	173
Other comprehensive income	—	—	—	—	2,786	2,786
Balance at March 31, 2023	50,808,116	83,295	14,906	234,048	(16,739)	315,510
Net income	—	—	—	2,539	—	2,539
Repurchase of restricted shares to pay employee tax liability	(28,826)	—	(158)	—	—	(158)
Issuance of shares of common stock to defined contribution retirement plan	184,928	1,028	—	—	—	1,028
Stock-based compensation	1,117,668	—	350	—	—	350
Other comprehensive loss	—	—	—	—	(1,593)	(1,593)
Balance at June 30, 2023	52,081,886	84,323	15,098	236,587	(18,332)	317,676
Net income	—	—	—	314	—	314
Repurchase of restricted shares to pay employee tax liability	(106)	—	(2)	—	—	(2)
Stock-based compensation	(9,149)	—	786	—	—	786
Other comprehensive loss	—	—	—	—	(2,671)	(2,671)
Balance at September 30, 2023	52,072,631	\$ 84,323	\$ 15,882	\$ 236,901	\$ (21,003)	\$ 316,103
Balance at January 1, 2024	52,070,361	\$ 84,323	\$ 16,660	\$ 241,964	\$ (15,224)	\$ 327,723
Net loss	—	—	—	(197)	—	(197)
Repurchase of restricted shares to pay employee tax liability	(38,033)	—	(216)	—	—	(216)
Stock-based compensation	14,355	—	729	—	—	729
Other comprehensive loss	—	—	—	—	(773)	(773)
Balance at March 31, 2024	52,046,683	84,323	17,173	241,767	(15,997)	327,266
Net income	—	—	—	1,316	—	1,316
Repurchase of restricted shares to pay employee tax liability	(72,806)	—	(378)	—	—	(378)
Stock-based compensation	397,632	—	797	—	—	797
Other comprehensive loss	—	—	—	—	(131)	(131)
Balance at June 30, 2024	52,371,509	84,323	17,592	243,083	(16,128)	328,870
Net loss	—	—	—	(143)	—	(143)
Repurchase of restricted shares to pay employee tax liability	(44,266)	—	(232)	—	—	(232)
Stock-based compensation	(13,310)	—	850	—	—	850
Other comprehensive income	—	—	—	—	5,264	5,264
Balance at September 30, 2024	52,313,933	\$ 84,323	\$ 18,210	\$ 242,940	\$ (10,864)	\$ 334,609

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash Flows From Operating Activities		
Net income	\$ 976	\$ 2,350
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for (recovery of) credit losses	(4,376)	(4,170)
Deferred income taxes	281	1,601
Gain on extinguishment of Subordinated Notes	—	(234)
Loss on sale of investment securities	—	2
Unrealized (gain) loss on equity securities	(94)	137
Net accretion on debt securities	(2,963)	(1,859)
Depreciation and amortization on leasehold improvements and equipment	790	1,031
Originations, net of principal payments, of loans held for sale	—	(2,655)
Proceeds from sale of mortgage loans held for sale	—	2,979
Gain on sale of loans held for sale	—	(1,695)
Increase in cash surrender value of company-owned life insurance, net of premiums	(161)	(157)
Valuation allowance adjustments and amortization of mortgage servicing rights	204	163
Stock-based compensation	2,376	1,309
Other	(144)	(20)
Change in operating assets and liabilities:		
Accrued interest receivable	(1,141)	(1,025)
Other assets	3,486	2,187
Other liabilities	2,789	(24,308)
Net cash provided by (used in) operating activities	<u>2,023</u>	<u>(24,364)</u>
Cash Flows From Investing Activities		
Purchase of interest-bearing time deposits with other banks	—	(240)
Maturities of interest-bearing time deposits with other banks	250	—
Maturities and principal receipts of debt securities	211,112	43,231
Proceeds from sale of debt securities	—	2,977
Purchases of debt securities	(219,330)	(101,287)
Maturities (purchases) of debt securities, net	—	153
Purchase of shares of Federal Reserve Bank stock	(139)	(4,501)
Proceeds received from redemptions of Federal Home Loan Bank stock	500	1,365
Net decrease in loans	125,685	205,495
Proceeds received from loans held for sale previously classified as portfolio loans	—	37,930
Principal payments received on loans held for sale previously classified as portfolio loans	—	1,959
Proceeds from the sales of equipment	—	46
Purchases of leasehold improvements and equipment	(77)	(326)
Net cash provided by investing activities	<u>118,001</u>	<u>186,802</u>
Cash Flows From Financing Activities		
Net increase in deposits	63,207	86,621
Repayment of advance from Federal Home Loan Bank	(50,000)	—
Payments on redemption of Subordinated Notes	—	(65,000)
Cash paid for surrender of vested shares to satisfy employee tax liability	(826)	(235)
Net cash provided by financing activities	<u>12,381</u>	<u>21,386</u>
Net change in cash and due from banks	132,405	183,824
Cash and due from banks at beginning of period	577,967	379,798
Cash and due from banks at end of period	<u>\$ 710,372</u>	<u>\$ 563,622</u>
Supplemental cash flows information		
Cash paid for:		
Interest	\$ 58,542	\$ 44,528
Income taxes	—	300
Noncash investing and financing activities:		
Transfer of residential real estate loans to loans held for sale	—	34,581
Transfer of residential real estate loans from loans held for sale	—	3,906
Shares of common stock issued in satisfaction of Company's matching contribution in defined contribution retirement plan	—	1,028
Right-of-use assets obtained in exchange for new operating lease liabilities	1,969	—

See accompanying notes to condensed consolidated financial statements.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements – (Unaudited)
(dollars in thousands, except share and per share amounts)

Note 1—Nature of Operations and Basis of Presentation

(a) Nature of Operations

Sterling Bancorp, Inc. (unless stated otherwise or the context otherwise requires, together with its subsidiaries, the “Company”) is a unitary thrift holding company that was incorporated in 1989 and the parent company of its wholly owned subsidiary, Sterling Bank and Trust, F.S.B. (the “Bank”), which was formed in 1984. The Company’s business is conducted through the Bank. The Bank originates commercial real estate loans and commercial and industrial loans, and provides deposit products, consisting primarily of checking, savings and term certificate accounts. Historically, the Company’s largest asset class has been residential mortgage loans. In 2023, the Bank discontinued originating residential mortgage loans. The Bank also engages in mortgage banking activities and, as such, acquires, sells and services residential mortgage loans. The Bank operates through a network of 27 branches of which 25 branches are located in the San Francisco and Los Angeles, California metropolitan areas with the remaining branches located in New York, New York and Southfield, Michigan. In February 2024, the Company closed one of its branches in San Francisco and consolidated the operations into a nearby branch office. The Company is headquartered in Southfield, Michigan.

The Company is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve System (the “FRB” or the “Federal Reserve”). The Bank is a federally chartered stock savings bank that elected to operate as a covered savings association, effective August 9, 2023. As a covered savings association, the Bank generally functions as a commercial bank without the constraints applicable to a thrift institution. Prior to the election becoming effective, the Bank was subject to the Qualified Thrift Lender test. Under the Qualified Thrift Lender test, a savings institution is required to maintain at least 65% of its portfolio assets in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12-month period. The Bank is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (“OCC”) of the U.S. Department of Treasury and the Federal Deposit Insurance Corporation (“FDIC”) and is a member of the FRB system and Federal Home Loan Bank (“FHLB”) system.

(b) Proposed Sale of the Bank and Dissolution of the Company

On September 15, 2024, the Company and the Bank entered into a definitive stock purchase agreement (the “Stock Purchase Agreement”) with EverBank Financial Corp, a Delaware corporation (“EverBank”), which provides for the Company to sell all of the issued and outstanding shares of capital stock of the Bank to EverBank for a fixed purchase price of \$261,000 to be paid in cash to the Company (the “Transaction”). Following the completion of the Transaction, EverBank will cause the Bank to merge with and into EverBank, National Association, the bank subsidiary of EverBank, with EverBank, National Association as the surviving bank and following the bank merger, the separate corporate existence of the Bank will cease.

The Transaction is subject to customary closing conditions, among which include the approval of the Stock Purchase Agreement, the Transaction and the plan of dissolution (“Plan of Dissolution”) by the Company’s shareholders and the receipt of required regulatory approvals. In addition, EverBank’s obligation to complete the Transaction is also subject to the following conditions: (i) the sale by the Bank of its portfolio of residential tenant-in-common loans (with an aggregate principal balance of approximately \$359,600 at September 30, 2024) and receipt by the Bank of the purchase price specified in such agreement and (ii) the average daily closing balance of the Bank’s deposits for the monthly period ending on the last day of the month before closing is not less than 85% of the average daily closing balance of such deposits for the monthly period ending on July 31, 2024.

Simultaneously with the execution of the Stock Purchase Agreement, the Bank entered into the mortgage loan purchase agreement (the “Mortgage Loan Purchase Agreement”) with Bayview Acquisitions LLC, a Delaware limited liability company (“Bayview”). The Mortgage Loan Purchase Agreement provides that Bayview will purchase the Bank’s residential tenant-in-common loans for an aggregate purchase price equal to 87% of the aggregate unpaid principal balance of the loans on the agreed upon purchase date plus all accrued and unpaid interest. The Bank’s obligation to consummate the sale contemplated by the Mortgage Loan Purchase Agreement is subject to certain conditions, including the receipt by the Bank of evidence of the shareholder and regulatory approvals required for the Transaction. As of September 30, 2024, the residential tenant-in-common loans were not held for sale as the Bank’s intent to liquidate its tenant-in-common loan portfolio is based upon its ability to close the Transaction and receipt of the required approvals for the Transaction. The closing of the loan sale is to occur immediately prior to the closing of the Transaction.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements – (Unaudited)
(dollars in thousands, except share and per share amounts)

Also on September 15, 2024, the Company’s board of directors unanimously approved a Plan of Dissolution, which provides for the dissolution of the Company under Michigan law following the closing of the Transaction. If the Plan of Dissolution is approved by the Company’s shareholders, the Company intends to complete the wind down of the Company and pay or provide for the Company’s creditors and existing and reasonably foreseeable debts, liabilities, and obligations of and claims against the Company (including all Transaction expenses and any claims or demands received by the Company on behalf of any of its shareholders) in accordance with Michigan law and the Plan of Dissolution, and distribute all remaining assets, expected to be all cash, to its shareholders according to their respective rights and interests, in one or more distributions.

(c) Basis of Presentation

The condensed consolidated balance sheet as of September 30, 2024, and the condensed consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity and cash flows for the three and nine months ended September 30, 2024 and 2023 are unaudited. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all adjustments, in the opinion of management, of a normal recurring nature that are necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The financial data and other financial information disclosed in these notes to the condensed consolidated financial statements related to these periods are also unaudited. The results of operations for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ended December 31, 2024 or for any future annual or interim period. The condensed consolidated balance sheet at December 31, 2023 included herein was derived from the audited financial statements as of that date. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the U.S. Securities and Exchange Commission on March 14, 2024.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The condensed consolidated financial statements include the results of Sterling Bancorp, Inc. and its wholly-owned subsidiaries.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Due to the inherent uncertainty involved in making estimates, actual results reported in the future periods may be based upon amounts that could differ from those estimates.

Concentration of Credit Risk

The loan portfolio consists primarily of residential real estate loans, which are collateralized by real estate. At September 30, 2024 and December 31, 2023, residential real estate loans accounted for 74% and 80% of total gross loans, respectively. In addition, most of these residential loans and other commercial loans have been made to individuals and businesses in the state of California, which are dependent on the area economy for their livelihoods and servicing of their loan obligation. At September 30, 2024 and December 31, 2023, approximately 76% and 80%, respectively, of gross loans were originated with respect to properties or businesses located in the state of California.

STERLING BANCORP, INC.
Notes to Condensed Consolidated Financial Statements – (Unaudited)
(dollars in thousands, except share and per share amounts)

Also, the loan portfolio consists of a loan product of one-, three-, five- or seven-year adjustable-rate mortgages that required a down payment of at least 35% (also referred to herein as “Advantage Loan Program loans”) which was terminated at the end of 2019 and continues to be the largest portion of gross residential loans. An internal review of the Advantage Loan Program and investigations conducted by the U.S. Department of Justice and the OCC indicated that certain employees engaged in misconduct in connection with the origination of a significant number of such loans, including the falsification of information with respect to verification of income, the amount of income reported for borrowers, reliance on third parties and related documentation. This former loan product totaled \$485,970, or 54%, and \$628,245, or 58% of gross residential loans, at September 30, 2024 and December 31, 2023, respectively.

Recently Issued Accounting Standards Not Yet Adopted

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (“ASU 2023-09”), which requires greater disaggregation of information in a reporting entity’s effective tax rate reconciliation as well as disaggregation of income taxes paid by jurisdiction. This ASU 2023-09 is effective for annual periods beginning after December 15, 2024. The guidance should be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2023-09 on its income tax disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (“ASU 2023-07”), which requires more disaggregated expense information about a public entity’s reportable segments if the significant segment expenses are regularly provided to the chief operating decision maker and included in each reported measure of segment profit or loss. Additionally, ASU 2023-07 allows public entities to disclose more than one measure of segment profit or loss used by the chief operating decision maker. For public entities that have one reportable segment, ASU 2023-07 confirmed that all of the disclosures required in the segment guidance, including disclosing a measure of segment profit or loss and reporting significant segment expense and other items apply to these entities. This ASU 2023-07 does not change the definition of a segment, the method of determining segments, or the criteria for aggregating operating segments into reportable segments. The ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods in fiscal years beginning after December 15, 2024. The ASU 2023-07 should be adopted retrospectively as of the beginning of the earliest period presented. Early adoption is permitted. Management believes the impact of ASU 2023-07 should not have a material impact on the Company’s disclosures.

Note 3—Debt Securities

The following tables summarize the amortized cost and fair value of available for sale debt securities at September 30, 2024 and December 31, 2023 and the corresponding amounts of gross unrealized gains and losses:

	Amortized Cost	September 30, 2024		Fair Value
		Gain	Loss	
Available for sale:				
U.S. Treasury and Agency securities	\$ 184,507	\$ 229	\$ (2,200)	\$ 182,536
Mortgage-backed securities	31,748	—	(3,041)	28,707
Collateralized mortgage obligations	234,992	138	(10,107)	225,023
Collateralized debt obligations	146	—	(3)	143
Total	<u>\$ 451,393</u>	<u>\$ 367</u>	<u>\$ (15,351)</u>	<u>\$ 436,409</u>

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	December 31, 2023			
	Amortized Cost	Gross Unrealized		Fair Value
		Gain	Loss	
Available for sale:				
U.S. Treasury and Agency securities	\$ 253,107	\$ 57	\$ (4,176)	\$ 248,988
Mortgage-backed securities	35,757	—	(3,830)	31,927
Collateralized mortgage obligations	151,196	27	(13,066)	138,157
Collateralized debt obligations	151	—	(10)	141
Total	<u>\$ 440,211</u>	<u>\$ 84</u>	<u>\$ (21,082)</u>	<u>\$ 419,213</u>

The Company has pledged investment securities with a fair value of \$77,463 and \$61,078 at September 30, 2024 and December 31, 2023, respectively, with the FHLB as collateral on its available FHLB borrowings.

Accrued interest receivable on available for sale debt securities totaled \$1,857 and \$1,535 at September 30, 2024 and December 31, 2023, respectively.

The mortgage-backed securities, and a majority of the collateralized mortgage obligations are issued and/or guaranteed by a U.S. government agency (Government National Mortgage Association) or a U.S. government-sponsored enterprise (Federal Home Loan Mortgage Corporation (“Freddie Mac”) or Federal National Mortgage Association (“Fannie Mae”). The fair value of the private-label collateralized mortgage obligations was \$278 and \$308 at September 30, 2024 and December 31, 2023, respectively.

No securities of any single issuer, other than debt securities issued by the U.S. government, government agency and government-sponsored enterprises, were in excess of 10% of total shareholders’ equity as of September 30, 2024 and December 31, 2023.

Information pertaining to sales of available for sale debt securities for the three and nine months ended September 30, 2024 and 2023 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	Proceeds from the sale of debt securities	\$ —	\$ —	\$ —
Gross realized gains	\$ —	\$ —	\$ —	\$ 1
Gross realized losses	—	—	—	(3)
Total net realized losses	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>

The income tax benefit related to the net realized losses was \$(1) for the nine months ended September 30, 2023.

The amortized cost and fair value of U.S. Treasury and Agency securities at September 30, 2024 are shown by contractual maturity in the table below. Mortgage-backed securities, collateralized mortgage obligations and collateralized debt obligations are disclosed separately as the expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
U.S. Treasury and Agency securities:		
Due less than one year	\$ 119,844	\$ 120,068
Due after one year through two years	64,663	62,468
Mortgage-backed securities	31,748	28,707
Collateralized mortgage obligations	234,992	225,023
Collateralized debt obligations	146	143
Total	<u>\$ 451,393</u>	<u>\$ 436,409</u>

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The following table summarizes available for sale debt securities, at fair value, in an unrealized loss position for which an allowance for credit losses has not been recorded at September 30, 2024 and December 31, 2023, aggregated by major security type and length of time the individual securities have been in a continuous unrealized loss position:

	September 30, 2024					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Agency securities	\$ —	\$ —	\$ 77,463	\$ (2,200)	\$ 77,463	\$ (2,200)
Mortgage-backed securities	4,155	(28)	24,552	(3,013)	28,707	(3,041)
Collateralized mortgage obligations	92,182	(412)	100,450	(9,695)	192,632	(10,107)
Collateralized debt obligations	—	—	143	(3)	143	(3)
Total	<u>\$ 96,337</u>	<u>\$ (440)</u>	<u>\$ 202,608</u>	<u>\$ (14,911)</u>	<u>\$ 298,945</u>	<u>\$ (15,351)</u>

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Agency securities	\$ 49,836	\$ (1)	\$ 125,183	\$ (4,175)	\$ 175,019	\$ (4,176)
Mortgage-backed securities	—	—	31,927	(3,830)	31,927	(3,830)
Collateralized mortgage obligations	10,297	(221)	111,554	(12,845)	121,851	(13,066)
Collateralized debt obligations	—	—	141	(10)	141	(10)
Total	<u>\$ 60,133</u>	<u>\$ (222)</u>	<u>\$ 268,805</u>	<u>\$ (20,860)</u>	<u>\$ 328,938</u>	<u>\$ (21,082)</u>

As of September 30, 2024, the debt securities portfolio consisted of 40 debt securities, with 32 debt securities in an unrealized loss position. For debt securities in an unrealized loss position, the Company has both the intent and ability to hold these investments and, based on the current conditions, the Company does not believe it is likely that it will be required to sell these debt securities prior to recovery of the amortized cost. As the Company had the intent and the ability to hold the debt securities in an unrealized loss position at September 30, 2024, each security with an unrealized loss position was further assessed to determine if a credit loss exists.

The Company's debt, mortgage-backed securities and the majority of the collateralized mortgage obligations are issued and guaranteed by the U.S. government, its agencies and government-sponsored enterprises. The Company has a long history with no credit losses from issuers of U.S. government, its agencies and government-sponsored enterprises. As a result, management does not expect any credit losses on its available for sale debt securities. Accordingly, the Company has not recorded an allowance for credit losses for its available for sale debt securities at September 30, 2024 and December 31, 2023.

Note 4—Equity Securities

Equity securities consist of an investment in a qualified Community Reinvestment Act investment fund, which is a publicly-traded mutual fund and an investment in the common equity of Pacific Coast Banker's Bank, a thinly traded restricted stock. At September 30, 2024 and December 31, 2023, equity securities totaled \$4,797 and \$4,703, respectively.

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Equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in non-interest income in the condensed consolidated statements of operations. At September 30, 2024 and December 31, 2023, equity securities with readily determinable fair values were \$4,551 and \$4,457, respectively. The following is a summary of unrealized and realized gains and losses recognized in the condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net gains (losses) recorded during the period on equity securities	\$ 160	\$ (137)	\$ 94	\$ (137)
Less: net gains (losses) recorded during the period on equity securities sold during the period	—	—	—	—
Unrealized gains (losses) recorded during the period on equity securities held at the reporting date	<u>\$ 160</u>	<u>\$ (137)</u>	<u>\$ 94</u>	<u>\$ (137)</u>

The Company has elected to account for its investment in a thinly traded, restricted stock using the measurement alternative for equity securities without readily determinable fair values, resulting in the investment carried at cost based on no evidence of impairment or observable trading activity during the nine months ended September 30, 2024 and 2023. The investment was reported at \$246 at September 30, 2024 and December 31, 2023.

Note 5—Loans

Loans Held for Investment

The major categories of loans held for investment and the allowance for credit losses were as follows:

	September 30, 2024	December 31, 2023
Residential real estate	\$ 904,438	\$ 1,085,776
Commercial real estate	306,927	236,982
Construction	5,212	10,381
Commercial and industrial	7,158	15,832
Other consumer	2	1
Total loans	<u>1,223,737</u>	<u>1,348,972</u>
Less: allowance for credit losses	<u>(24,970)</u>	<u>(29,404)</u>
Loans, net	<u>\$ 1,198,767</u>	<u>\$ 1,319,568</u>

Accrued interest receivable related to total gross loans was \$6,619 and \$6,617 as of September 30, 2024 and December 31, 2023, respectively.

The Company has pledged loans totaling \$474,351 and \$428,358 at September 30, 2024 and December 31, 2023, respectively, with the FHLB as collateral on its available FHLB borrowings. Residential real estate loans collateralized by properties that were in the process of foreclosure totaled \$3,452 and \$4,004 at September 30, 2024 and December 31, 2023, respectively.

In March 2023, residential real estate loans held for investment with an amortized cost of \$41,059 were transferred to loans held for sale due to management's change in intent and decision to sell the loans. On the transfer, the Company recorded a \$6,478 charge off applied against the allowance for credit losses to reflect these loans at their estimated fair value.

During the nine months ended September 30, 2023, the Company sold all of its loans held for sale with a carrying value of \$36,210 on the date of sale to a third party for net cash proceeds of \$37,930. The Company recorded a gain on the sale of loans of \$1,720 which is included in gain on sale of mortgage loans held for sale in the condensed consolidated statements of operations for the nine months ended September 30, 2023.

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Allowance for Credit Losses

The allowance for credit losses was estimated using the current expected credit loss model. The Company's estimate of the allowance for credit losses reflects losses expected over the remaining contractual life of the loans. The contractual term does not consider extensions, renewals or modifications unless the Company has identified a loan where the individual borrower is experiencing financial difficulty. The following tables present the activity in the allowance for credit losses related to loans held for investment by portfolio segment for the three and nine months ended September 30, 2024 and 2023:

Three Months Ended September 30, 2024	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Total
Allowance for credit losses:					
Balance at the beginning of the period	\$ 12,971	\$ 13,605	\$ 809	\$ 171	\$ 27,556
Provision for (recovery of) credit losses	(710)	(2,109)	52	171	(2,596)
Charge offs	—	—	—	—	—
Recoveries	—	—	10	—	10
Total ending balance	<u>\$ 12,261</u>	<u>\$ 11,496</u>	<u>\$ 871</u>	<u>\$ 342</u>	<u>\$ 24,970</u>

Nine Months Ended September 30, 2024	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Total
Allowance for credit losses:					
Balance at the beginning of the period	\$ 14,322	\$ 13,550	\$ 1,386	\$ 146	\$ 29,404
Provision for (recovery of) credit losses	(2,500)	(2,054)	(526)	196	(4,884)
Charge offs	—	—	—	—	—
Recoveries	439	—	11	—	450
Total ending balance	<u>\$ 12,261</u>	<u>\$ 11,496</u>	<u>\$ 871</u>	<u>\$ 342</u>	<u>\$ 24,970</u>

Three Months Ended September 30, 2023	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Total
Allowance for credit losses:					
Balance at the beginning of the period	\$ 16,909	\$ 16,728	\$ 2,475	\$ 41	\$ 36,153
Provision for (recovery of) credit losses	1,307	(2,482)	(752)	40	(1,887)
Charge offs	—	—	—	—	—
Recoveries	—	—	1	—	1
Total ending balance	<u>\$ 18,216</u>	<u>\$ 14,246</u>	<u>\$ 1,724</u>	<u>\$ 81</u>	<u>\$ 34,267</u>

Nine Months Ended September 30, 2023	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Total
Allowance for credit losses:					
Balance at the beginning of the period	\$ 27,951	\$ 11,694	\$ 5,781	\$ 38	\$ 45,464
Adoption of ASU 2016-13	865	1,151	(3,633)	(34)	(1,651)
Adoption of ASU 2022-02	(11)	—	391	—	380
Provision for (recovery of) credit losses	(4,477)	1,301	(818)	77	(3,917)
Charge offs	(6,478)	—	—	—	(6,478)
Recoveries	366	100	3	—	469
Total ending balance	<u>\$ 18,216</u>	<u>\$ 14,246</u>	<u>\$ 1,724</u>	<u>\$ 81</u>	<u>\$ 34,267</u>

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Nonaccrual Loans and Past Due Loans

Past due loans held for investment are loans contractually past due 30 days or more as to principal or interest payments. A loan held for investment is classified as nonaccrual, and the accrual of interest on such loan is discontinued, when the contractual payment of principal or interest becomes 90 days past due. In addition, a loan may be placed on nonaccrual at any other time management has serious doubts about further collectability of principal or interest according to the contractual terms, even though the loan is currently performing. A loan held for investment may remain in accrual status if it is in the process of collection and well secured. When a loan held for investment is placed in nonaccrual status, interest accrued but not received is reversed against interest income. Interest received on such loans is applied to the principal balance of the loan until qualifying for return to accrual status. Loans are returned to accrual status after all principal and interest amounts contractually due are made and future payments are reasonably assured.

The following table presents the total amortized cost basis of loans on nonaccrual status, the amortized cost basis of loans on nonaccrual status with no related allowance for credit losses and loans past due 90 days or more and still accruing at September 30, 2024 and December 31, 2023:

	September 30, 2024			December 31, 2023		
	Nonaccrual Loans	Nonaccrual With No Allowance for Credit Losses	Past Due 90 Days or More and Still Accruing	Nonaccrual Loans	Nonaccrual With No Allowance for Credit Losses	Past Due 90 Days or More and Still Accruing
Residential real estate:						
Residential first mortgage	\$ 13,187	\$ 3,482	\$ 27	\$ 8,942	\$ 4,079	\$ 31

At September 30, 2024, the Company had nonaccrual loans of \$13,187 in its held for investment loan portfolio. The increase in nonaccrual loans from December 31, 2023 was due to the addition of residential loans of \$8,668 on nonaccrual status which was partially offset by loans totaling \$2,453 that were returned to accrual status, loans that were paid in full totaling \$946 and payments of the loan principal of \$1,024.

The total interest income that would have been recorded if the nonaccrual loans had been current in accordance with their original terms was \$365 and \$96 for the three months ended September 30, 2024 and 2023, respectively, and \$817 and \$157 for the nine months ended September 30, 2024 and 2023, respectively. The Company does not record interest income on nonaccrual loans.

Aging Analysis of Past Due Loans

The following table presents an aging of the amortized cost basis of contractually past due loans as of September 30, 2024 and December 31, 2023:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total
September 30, 2024						
Residential real estate	\$ 8,612	\$ 3,799	\$ 13,214	\$ 25,625	\$ 878,813	\$ 904,438
Commercial real estate	—	—	—	—	306,927	306,927
Construction	—	—	—	—	5,212	5,212
Commercial and industrial	—	—	—	—	7,158	7,158
Other consumer	—	—	—	—	2	2
Total	\$ 8,612	\$ 3,799	\$ 13,214	\$ 25,625	\$ 1,198,112	\$ 1,223,737
December 31, 2023						
Residential real estate	\$ 16,634	\$ 2,305	\$ 8,973	\$ 27,912	\$ 1,057,864	\$ 1,085,776
Commercial real estate	—	—	—	—	236,982	236,982
Construction	—	—	—	—	10,381	10,381
Commercial and industrial	—	—	—	—	15,832	15,832
Other consumer	—	—	—	—	1	1
Total	\$ 16,634	\$ 2,305	\$ 8,973	\$ 27,912	\$ 1,321,060	\$ 1,348,972

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Collateral-Dependent Loans

Collateral-dependent loans are those for which repayment (on the basis of the Company's assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The amortized cost basis of collateral-dependent loans was \$3,452 and \$4,004 at September 30, 2024 and December 31, 2023, respectively. These loans were collateralized by residential real estate property and the fair value of collateral on substantially all collateral-dependent loans were significantly in excess of their amortized cost basis.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Historically, the Company has provided loan forbearances to residential borrowers when mandated and modified construction loans by providing term extensions. The Company did not have any loans held for investment to borrowers experiencing financial difficulty that were modified during the three and nine months ended September 30, 2024 and 2023. The Company did not have any loans held for investment to borrowers experiencing financial difficulty that were previously modified that subsequently defaulted during the three and nine months ended September 30, 2024 and 2023.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans, such as residential real estate and other consumer loans, and non-homogeneous loans, such as commercial and industrial, construction and commercial real estate loans. This analysis is performed at least quarterly. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered Pass-rated loans.

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For residential and consumer loan classes, the Company evaluates credit quality based on the accrual status of the loan. The following table presents the amortized cost by year of origination and credit quality in residential loans based on accrual status:

As of September 30, 2024	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Residential lending									
Residential mortgage loans:									
Payment performance:									
Accrual	\$ —	\$ 757	\$ 70,465	\$ 123,212	\$ 90,790	\$ 598,289	\$ 7,479	\$ 259	\$ 891,251
Nonaccrual	—	—	—	—	—	13,187	—	—	13,187
Total residential mortgage loans	\$ —	\$ 757	\$ 70,465	\$ 123,212	\$ 90,790	\$ 611,476	\$ 7,479	\$ 259	\$ 904,438
Residential mortgage loans:									
Current period gross write offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

As of December 31, 2023	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Residential lending									
Residential mortgage loans:									
Payment performance:									
Accrual	\$ 764	\$ 72,840	\$ 132,567	\$ 99,676	\$ 202,793	\$ 560,185	\$ 7,729	\$ 280	\$ 1,076,834
Nonaccrual	—	—	—	—	1,739	7,203	—	—	8,942
Total residential mortgage loans	\$ 764	\$ 72,840	\$ 132,567	\$ 99,676	\$ 204,532	\$ 567,388	\$ 7,729	\$ 280	\$ 1,085,776
Residential mortgage loans:									
Current period gross write offs	\$ —	\$ —	\$ —	\$ —	\$ 1,858	\$ 4,601	\$ 19	\$ —	\$ 6,478

The amortized cost basis by year of origination and credit quality indicator of the Company's commercial loans based on the most recent analysis performed was as follows:

As of September 30, 2024	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Commercial lending									
Commercial real estate:									
Risk rating									
Pass	\$ 108,512	\$ 22,009	\$ 78,599	\$ 7,515	\$ 37,191	\$ 20,964	\$ —	\$ —	\$ 274,790
Special mention	1,142	937	2,883	—	—	5,373	—	—	10,335
Substandard	—	—	—	11,800	—	10,002	—	—	21,802
Total commercial real estate	\$ 109,654	\$ 22,946	\$ 81,482	\$ 19,315	\$ 37,191	\$ 36,339	\$ —	\$ —	\$ 306,927
Commercial real estate:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction:									
Risk rating									
Pass	\$ —	\$ 9	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9
Substandard	—	—	—	—	—	5,203	—	—	5,203
Total construction	\$ —	\$ 9	\$ —	\$ —	\$ —	\$ 5,203	\$ —	\$ —	\$ 5,212
Construction:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial:									
Risk rating									
Pass	\$ —	\$ 512	\$ —	\$ —	\$ —	\$ 19	\$ 6,627	\$ —	\$ 7,158
Total commercial and industrial	\$ —	\$ 512	\$ —	\$ —	\$ —	\$ 19	\$ 6,627	\$ —	\$ 7,158
Commercial and industrial:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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As of December 31, 2023	Term Loans Amortized Cost Basis by Origination Year					Prior	Revolving Loans Amortized Costs Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019				
Commercial lending									
Commercial real estate:									
Risk rating									
Pass	\$ 28,975	\$ 79,013	\$ 33,694	\$ 35,148	\$ 6,938	\$ 13,020	\$ —	\$ —	\$ 196,788
Special mention	948	3,574	1,407	2,724	8,610	4,253	—	—	21,516
Substandard	—	—	11,778	—	2,805	4,095	—	—	18,678
Total commercial real estate	<u>\$ 29,923</u>	<u>\$ 82,587</u>	<u>\$ 46,879</u>	<u>\$ 37,872</u>	<u>\$ 18,353</u>	<u>\$ 21,368</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 236,982</u>
Commercial real estate:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction:									
Risk rating									
Pass	\$ 14	\$ —	\$ —	\$ 1,591	\$ —	\$ —	\$ —	\$ —	\$ 1,605
Substandard	—	—	—	—	8,776	—	—	—	8,776
Total construction	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,591</u>	<u>\$ 8,776</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,381</u>
Construction:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial:									
Risk rating									
Pass	\$ 14,461	\$ 1,071	\$ —	\$ —	\$ —	\$ 97	\$ 130	\$ 73	\$ 15,832
Total commercial and industrial	<u>\$ 14,461</u>	<u>\$ 1,071</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 97</u>	<u>\$ 130</u>	<u>\$ 73</u>	<u>\$ 15,832</u>
Commercial and industrial:									
Current period gross charge offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Note 6—Mortgage Servicing Rights, net

The Company records servicing assets from the sale of residential real estate mortgage loans to the secondary market for which servicing has been retained. Residential real estate mortgage loans serviced for others are not included in the condensed consolidated balance sheets. The principal balance of these loans at September 30, 2024 and December 31, 2023 are as follows:

	September 30, 2024	December 31, 2023
Residential real estate mortgage loan portfolios serviced for:		
FNMA	\$ 99,672	\$ 105,689
FHLB	28,715	31,016
Private investors	24,264	33,044
Total	<u>\$ 152,651</u>	<u>\$ 169,749</u>

Custodial escrow balances maintained with these serviced loans were \$668 and \$620 at September 30, 2024 and December 31, 2023, respectively. These balances are included in noninterest-bearing deposits in the condensed consolidated balance sheets.

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Activity for mortgage servicing rights and the related valuation allowance are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Mortgage servicing rights:				
Beginning of period	\$ 1,425	\$ 1,701	\$ 1,590	\$ 1,840
Amortization	(37)	(32)	(202)	(171)
End of period	<u>1,388</u>	<u>1,669</u>	<u>1,388</u>	<u>1,669</u>
Valuation allowance:				
Beginning of period	33	43	48	46
Additions (recoveries)	17	(5)	2	(8)
End of period	<u>50</u>	<u>38</u>	<u>50</u>	<u>38</u>
Mortgage servicing rights, net	<u>\$ 1,338</u>	<u>\$ 1,631</u>	<u>\$ 1,338</u>	<u>\$ 1,631</u>

Servicing income, net of amortization of servicing rights and changes in the valuation allowance, was \$61 and \$107 for the three months ended September 30, 2024 and 2023, respectively, and \$182 and \$268 for the nine months ended September 30, 2024 and 2023, respectively.

The fair value of mortgage servicing rights was \$1,610 and \$1,857 at September 30, 2024 and December 31, 2023, respectively. The fair value of mortgage servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed assumptions have the most significant impact on the estimate of the fair value of mortgage servicing rights. The fair value at September 30, 2024 was determined using discount rates ranging from 10.0% to 12.5%, prepayment speeds with a weighted average of 9.3% (depending on the stratification of the specific right), a weighted average life of the mortgage servicing right of 77 months and a weighted average default rate of 0.2%. The fair value at December 31, 2023 was determined using discount rates ranging from 10.0% to 12.5%, prepayment speeds with a weighted average of 9.8% (depending on the stratification of the specific right), a weighted average life of the mortgage servicing right of 77 months and a weighted average default rate of 0.2%.

Impairment is determined by stratifying the mortgage servicing rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. At September 30, 2024 and December 31, 2023, the carrying amount of certain individual groupings exceeded their fair value, resulting in write-downs to fair value. Refer to Note 14—Fair Value.

Note 7—Deposits

Time deposits, included in interest-bearing deposits in the condensed consolidated balance sheets, were \$972,171 and \$873,220 at September 30, 2024 and December 31, 2023, respectively. The Company did not have any brokered deposits at September 30, 2024 and December 31, 2023.

Time deposits that meet or exceed the FDIC insurance limit of \$250 were \$306,041 and \$255,222 at September 30, 2024 and December 31, 2023, respectively.

Note 8—FHLB Borrowings

FHLB Advances

On May 15, 2024, the FHLB exercised its call right to require repayment of the Company's long-term fixed rate FHLB advance of \$50,000 with an original maturity date of May 2029. The Company repaid the FHLB advance with its existing cash funds. The FHLB advance required monthly interest-only payments at 1.96% per annum.

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FHLB Overdraft Line of Credit and Letters of Credit

The Company has established a short-term overdraft line of credit agreement with the FHLB, which provides for maximum borrowings of \$20,000. The overdraft line of credit was not used during the nine months ended September 30, 2024 and 2023. Borrowings accrue interest at a variable-rate based on the FHLB's overnight cost of funds rate, which was 5.24% and 5.76% at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024 and December 31, 2023, there were no outstanding borrowings under this agreement. The overdraft line of credit was renewed in October 2023 for a one-year term and was automatically extended for an additional one-year period through October 2025.

The Company entered into irrevocable standby letters of credit arrangements with the FHLB to provide credit support for certain of its obligations related to its commitment to repurchase certain pools of Advantage Loan Program loans. The irrevocable standby letter of credit of \$2,000 had a 36-month term and was not required to be renewed when it expired in July 2024. There were no borrowings outstanding on these standby letters of credit during the nine months ended September 30, 2024 and 2023.

Based on our collateral pledged with the FHLB, consisting of certain loans and investment securities, and holdings of FHLB stock, the Company had a borrowing capacity with the FHLB of \$409,287 at September 30, 2024. Refer to Note 3—Debt Securities for further information on securities pledged and Note 5—Loans for further information on loans pledged.

Other Borrowings

The Company has available unsecured federal funds credit lines, which were held by two banks and reduced to \$60,000 in March 2024. Previously, these unsecured federal funds credit lines were held by three banks totaling \$80,000. There were no borrowings under these unsecured credit lines during the nine months ended September 30, 2024 and 2023.

Note 9—Subordinated Notes

On July 15, 2023, the Company redeemed all of its outstanding 7% Fixed to Floating Subordinated Notes, due April 15, 2026 (“Subordinated Notes”), at a redemption price equal to 100% of the outstanding principal amount of \$65,000 plus accrued interest, for a total cash payment of \$66,821. The Company recorded a gain on the extinguishment of the Subordinated Notes of \$234 which equaled the remaining unamortized note premium. The gain on the extinguishment of the Subordinated Notes was recorded in other income within non-interest income in the consolidated statements of operations for the three and nine months ended September 30, 2023.

The Subordinated Notes accrued interest at a variable interest rate based on the three-month London Interbank Offered Rate (“LIBOR”) plus a margin of 5.82%, payable quarterly in arrears. Note premium costs were amortized over the contractual term of the Subordinated Notes into interest expense using the effective interest method. Interest expense on these Subordinated Notes was \$243 and \$3,727 for the three and nine months ended September 30, 2023, respectively.

Note 10—Stock-based Compensation

The board of directors established the 2020 Omnibus Equity Incentive Plan (the “2020 Plan”), which was approved by the shareholders in December 2020. The 2020 Plan provides for the grant of up to 3,979,661 shares of common stock for stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares for issuance to employees, consultants and the board of directors of the Company, of which 1,799,970 shares were available for future grants as of September 30, 2024. The stock-based awards are issued at no less than the market price on the date the awards are granted.

Previously, the board of directors had established a 2017 Omnibus Equity Incentive Plan (the “2017 Plan”) which was approved by the shareholders. The stock-based awards were issued at no less than the market price on the date the awards were granted. Due to the adoption of the 2020 Plan, no further grants will be issued under the 2017 Plan.

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Stock Options

Stock option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of grant. Beginning with grants in 2020, stock option awards vest ratably over three years (one-third per year) after the date of grant, while stock option awards granted prior to 2020 generally vest in installments of 50% in each of the third and fourth year after the date of grant. All stock option awards have a maximum term of ten years.

A summary of the Company's stock option activity as of and for the nine months ended September 30, 2024 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2024	340,395	\$ 4.96	6.23	\$ 531
Granted	—			
Exercised	—			
Forfeited/expired	—			
Outstanding and exercisable at September 30, 2024	<u>340,395</u>	\$ 4.96	5.48	\$ 165

The Company recorded stock-based compensation expense associated with stock options of \$1 for the nine months ended September 30, 2023.

Restricted Stock Awards

Restricted stock awards are issued to independent directors and certain key employees. The restricted stock awards generally vest one-third per year over three years after the date of grant, unless the Executive Compensation Committee establishes a different vesting schedule for specific grants. The value of a restricted stock award is based on the market value of the Company's common stock at the date of grant reduced by the present value of dividends per share expected to be paid during the period the shares are not vested. Upon a change in control, as defined in the 2020 Plan, the outstanding restricted stock awards will immediately vest.

During the nine months ended September 30, 2024, the board of directors approved the issuance of 499,888 shares of restricted stock, of which 60,000 were awarded to independent directors with a weighted average grant-date fair value of \$5.77 and 439,888 shares were awarded to key employees with a weighted average grant-date fair value of \$5.10. During the nine months ended September 30, 2023, the board of directors approved the issuance of 1,195,838 shares of restricted stock, of which 60,000 were awarded to independent directors with a weighted average grant-date fair value of \$6.09 and 1,135,838 shares were awarded to key employees with a weighted average grant-date fair value of \$5.10. The restricted stock awards granted to key employees for the nine months ended September 30, 2024 and 2023 include awards granted to certain executive officers that vest in one-third increments on the third, fourth and fifth anniversary date of the grant. Additionally, the restricted stock awards granted to key employees for the nine months ended September 30, 2023, include an award granted to the chief executive officer that vests in one-third increments every six months over an eighteen - month period.

During the nine months ended September 30, 2024 and 2023, the Company withheld 155,105 shares and 41,098 shares, respectively, of common stock representing a portion of the restricted stock awards that vested during the period in order to satisfy certain related employee tax withholding liabilities of \$826 and \$235, respectively, associated with vesting. These withheld shares are treated the same as repurchased shares for accounting purposes.

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A summary of the restricted stock awards activity as of and for the nine months ended September 30, 2024 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2024	1,364,570	\$ 5.27
Granted	499,888	5.18
Vested	(509,678)	5.41
Forfeited	(101,211)	5.21
Nonvested at September 30, 2024	<u>1,253,569</u>	\$ 5.19

The fair value of the award is recorded as compensation expense on a straight-line basis over the vesting period. The Company recorded stock-based compensation expense associated with restricted stock awards of \$850 and \$786 for the three months ended September 30, 2024 and 2023, respectively, and \$2,376 and \$1,308 for the nine months ended September 30, 2024 and 2023, respectively. At September 30, 2024, there was \$4,937 of total unrecognized compensation cost related to the nonvested stock granted which is expected to be recognized over a weighted-average period of 2.7 years. The total fair value of shares vested during the nine months ended September 30, 2024 and 2023 was \$2,743 and \$879, respectively.

Note 11—Shareholders' Equity

In April 2023, the Company issued and contributed 184,928 shares of common stock to fund the matching contribution made under the Bank's defined contribution retirement plan. The contribution amount of \$1,028 was valued using the closing market price of the stock on the date contributed or \$5.56 per share.

Note 12—Regulatory Capital Requirements

The Bank is subject to the capital adequacy requirements of the OCC. The Company, as a thrift holding company, generally is subject to the capital adequacy requirements of the Federal Reserve. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Prompt corrective action regulations provide five classifications for depository institutions like the Bank, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors, and the regulators, in their discretion, can require the Company to lower classifications in certain cases. Failure to meet minimum capital requirements can initiate regulatory action that could have a direct material effect on the Company's business, financial condition and results of operations.

The federal banking agencies' regulations provide for an optional simplified measure of capital adequacy for qualifying community banking organizations (that is, the "CBLR" framework), as implemented pursuant to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018. The CBLR framework is designed to reduce the burden of the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. In order to qualify for the CBLR framework, a community banking organization must have (i) a Tier 1 capital to average total assets (leverage) ratio of greater than 9.0%, (ii) less than \$10 billion in total consolidated assets, and (iii) limited amounts of off-balance-sheet exposure and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the capital ratio requirements for the well capitalized capital category under applicable prompt corrective action regulations and will not be required to report or calculate risk-based capital under generally applicable capital adequacy requirements. Failure to meet the qualifying criteria within the grace period of two reporting periods, or to maintain a leverage ratio of 8.0% or greater, would require the institution to comply with the generally applicable capital adequacy requirements. An eligible banking organization can opt out of the CBLR framework and revert to compliance with general capital adequacy requirements and capital measurements under prompt corrective action regulations without restriction.

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The Company and the Bank have determined the organization is a qualifying community banking organization and has elected to measure capital adequacy under the CBLR framework, effective as of January 1, 2023. Management believes as of September 30, 2024, the Company and the Bank meet all capital adequacy requirements to which they are subject. The following tables present the consolidated Company’s and the Bank’s actual capital amounts and leverage ratio, and the minimum required capital amounts and leverage ratio thresholds required under the CBLR framework at September 30, 2024 and December 31, 2023:

	<u>Actual</u>		<u>To be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
September 30, 2024				
Tier 1 (core) capital to average total assets (leverage ratio)				
Consolidated	\$ 344,376	14.18 %	\$ 218,511	9.00 %
Bank	\$ 332,738	13.72 %	\$ 218,216	9.00 %

	<u>Actual</u>		<u>To be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2023				
Tier 1 (core) capital to average total assets (leverage ratio)				
Consolidated	\$ 342,368	13.95 %	\$ 220,950	9.00 %
Bank	\$ 328,362	13.38 %	\$ 220,920	9.00 %

Dividend Restrictions

As noted above, federal banking regulations require the Bank to maintain certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to its shareholders. The holding company’s principal source of funds for dividend payments is dividends received from the Bank. Regulatory approval is required if (i) the total capital distributions for the applicable calendar year exceed the sum of the Bank’s net income for that year to date plus the Bank’s retained net income for the preceding two years or (ii) the Bank would not be at least adequately capitalized following the distribution. In addition, the Company currently is required to obtain the prior approval of the FRB in order to pay dividends to the Company’s shareholders.

Note 13—Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income per common share further includes any common shares available to be issued upon the exercise of outstanding stock options and restricted stock awards if such inclusions would be dilutive. The Company determines the potentially dilutive common shares using the treasury stock method. In periods of a net loss, basic and diluted per share information are the same.

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The following table presents the computation of income (loss) per share, basic and diluted:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income (loss)	\$ (143)	\$ 314	\$ 976	\$ 2,350
Denominator:				
Weighted average common shares outstanding, basic	51,059,012	50,699,967	50,941,371	50,606,566
Weighted average effect of potentially dilutive common shares:				
Stock options	—	95,066	68,873	89,380
Restricted stock	—	274,650	334,664	53,933
Weighted average common shares outstanding, diluted	51,059,012	51,069,683	51,344,908	50,749,879
Income (loss) per share, basic and diluted	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.05

The weighted average effect of certain stock options and nonvested restricted stock that were excluded from the computation of weighted average diluted shares outstanding, as inclusion would be anti-dilutive, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Stock options	79,494	43,031	40,395	45,987
Restricted stock	284,000	23,566	421,208	510,472
Total	363,494	66,597	461,603	556,459

Note 14—Fair Value

Financial instruments include assets carried at fair value, as well as certain assets and liabilities carried at cost or amortized cost but disclosed at fair value in these condensed consolidated financial statements. Fair value is defined as the exit price, the price that would be received for an asset or paid to transfer a liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Investment Securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar investment securities (Level 2). For investment securities where quoted prices or market prices of similar investment securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair value of the collateralized debt obligations, which are categorized as Level 3, is obtained from third-party pricing information. It is determined by calculating discounted cash flows that include spreads that adjust for credit risk and illiquidity. The Company also performs an internal analysis that considers the structure and term of the collateralized debt obligations and the financial condition of the underlying issuers to corroborate the information used from the independent third party.

Mortgage Servicing Rights

Fair value of mortgage servicing rights is initially determined at the individual grouping level based on an internal valuation model that calculates the present value of estimated future net servicing income. On a quarterly basis, mortgage servicing rights are evaluated for impairment based upon third-party valuations obtained. As disclosed in Note 6—Mortgage Servicing Rights, net, the valuation model utilizes interest rate, prepayment speed and default rate assumptions that market participants would use in estimating future net servicing income (Level 3).

Assets Measured at Fair Value on a Recurring Basis

The table below presents the assets measured at fair value on a recurring basis categorized by the level of inputs used in the valuation of each asset at September 30, 2024 and December 31, 2023:

	Total	Fair Value Measurements at September 30, 2024		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Financial Assets</i>				
Available for sale debt securities:				
U.S. Treasury and Agency securities	\$ 182,536	\$ 77,548	\$ 104,988	\$ —
Mortgage-backed securities	28,707	—	28,707	—
Collateralized mortgage obligations	225,023	—	225,023	—
Collateralized debt obligations	143	—	—	143
Equity securities	4,551	4,551	—	—

	Total	Fair Value Measurements at December 31, 2023		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Financial Assets</i>				
Available for sale debt securities:				
U.S. Treasury and Agency securities	\$ 248,988	\$ 219,582	\$ 29,406	\$ —
Mortgage-backed securities	31,927	—	31,927	—
Collateralized mortgage obligations	138,157	—	138,157	—
Collateralized debt obligations	141	—	—	141
Equity securities	4,457	4,457	—	—

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The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2024 and 2023:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Collateralized Debt Obligations			
	Nine Months Ended September 30,			
	2024	2023		
Balance of recurring Level 3 assets at beginning of period	\$	141	\$	147
Total gains or losses (realized/unrealized):				
Included in other comprehensive income (loss)		7		(1)
Principal maturities/settlements		(5)		(4)
Balance of recurring Level 3 assets at end of period	\$	143	\$	142

Assets Measured at Fair Value on a Nonrecurring Basis

From time to time, the Company may be required to measure certain other assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the condensed consolidated balance sheets at September 30, 2024 and December 31, 2023, the following table provides the level of valuation assumptions used to determine each adjustment and the related carrying value:

	Fair Value Measurements at September 30, 2024			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights	\$ 363	\$ —	\$ —	\$ 363

	Fair Value Measurements at December 31, 2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights	\$ 576	\$ —	\$ —	\$ 576

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The following tables present quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at September 30, 2024 and December 31, 2023:

Quantitative Information about Level 3 Fair Value Measurements at September 30, 2024				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) ⁽¹⁾
Mortgage servicing rights	\$ 363	Discounted cash flow	Discount rate	10.0% - 12.5% (12.0)%
			Prepayment speed	6.9% - 22.8% (17.3)%
			Default rate	0.1% - 0.2% (0.2)%

Quantitative Information about Level 3 Fair Value Measurements at December 31, 2023				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average) ⁽¹⁾
Mortgage servicing rights	\$ 576	Discounted cash flow	Discount rate	10.0% - 12.5% (12.2)%
			Prepayment speed	6.9% - 22.7% (18.5)%
			Default rate	0.1% - 0.2% (0.1)%

(1) The range and weighted average for an asset category consisting of a single investment represents the significant unobservable input used in the fair value of the investment.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value at September 30, 2024 and December 31, 2023, are as follows:

	Fair Value Measurements at September 30, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets</i>					
Cash and due from banks	\$ 710,372	\$ 710,372	\$ 710,372	\$ —	\$ —
Interest-bearing time deposits with other banks	4,983	4,983	4,983	—	—
Loans, net	1,198,767	1,204,106	—	—	1,204,106
<i>Financial Liabilities</i>					
Time deposits	972,171	976,670	—	976,670	—

	Fair Value Measurements at December 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets</i>					
Cash and due from banks	\$ 577,967	\$ 577,967	\$ 577,967	\$ —	\$ —
Interest-bearing time deposits with other banks	5,226	5,226	5,226	—	—
Loans, net	1,319,568	1,313,282	—	—	1,313,282
<i>Financial Liabilities</i>					
Time deposits	873,220	874,274	—	874,274	—
Federal Home Loan Bank borrowings	50,000	49,370	—	49,370	—

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Note 15—Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, such as loan commitments and unused credit lines, and standby letters of credit, which are not reflected in the condensed consolidated financial statements.

The Company is required to estimate the expected credit losses for off-balance sheet credit exposures. The Company maintains an estimated liability for unfunded commitments, primarily related to commitments to extend credit, which is included in other liabilities on the condensed consolidated balance sheets. The liability for unfunded commitments is reduced in the period in which the off-balance sheet financial instruments expire, loan funding occurs or is otherwise settled. The following presents the activity in the liability for unfunded commitments for the nine months ended September 30, 2024 and 2023:

<u>Nine Months Ended September 30, 2024</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Total</u>
Liability for unfunded commitments:					
Balance at the beginning of the period	\$ 1	\$ 124	\$ 763	\$ 8	\$ 896
Increase (decrease) in provision for (recovery of) credit losses	—	(43)	113	438	508
Total ending balance	<u>\$ 1</u>	<u>\$ 81</u>	<u>\$ 876</u>	<u>\$ 446</u>	<u>\$ 1,404</u>
<u>Nine Months Ended September 30, 2023</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Total</u>
Liability for unfunded commitments:					
Balance at the beginning of the period	\$ —	\$ —	\$ —	\$ —	\$ —
Adoption of ASU 2016-13	53	125	398	3	579
Increase (decrease) in provision for (recovery of) credit losses	(52)	4	(206)	1	(253)
Total ending balance	<u>\$ 1</u>	<u>\$ 129</u>	<u>\$ 192</u>	<u>\$ 4</u>	<u>\$ 326</u>

Unfunded Commitments to Extend Credit

A commitment to extend credit, such as a loan commitment, credit line and overdraft protection, is a legally binding agreement to lend funds to a customer, usually at a stated interest rate and for a specific purpose. Such commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity requirements or credit risk that the Company may experience is expected to be lower than the contractual amount of commitments to extend credit because a significant portion of those commitments are expected to expire without being used. Certain commitments are subject to loan agreements containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans.

Unused Lines of Credit

The Company also issues unused lines of credit to meet customer financing needs. At September 30, 2024, the unused lines of credit include residential second mortgages of \$8,542, construction loans of \$5,229, commercial real estate of \$2,164 and commercial and industrial loans of \$9,333, totaling \$25,268. These unused lines of credit consisted of a fixed rate loan of \$5,000 with an interest rate of 6.00% and a maturity of 17 months and variable-rate loans of \$20,268 with interest rates ranging from 4.54% to 10.88% and maturities ranging from one month to 21 years. At December 31, 2023, the unused lines of credit include residential second mortgages of \$9,789, construction loans of \$5,714, commercial real estate of \$2,165 and commercial and industrial loans of \$874, totaling \$18,542. These unused lines of credit consisted of a fixed rate loan of \$5,000 with an interest rate of 6.00% and a maturity of two years and variable-rate loans of \$13,542 with interest rates ranging from 4.72% to 10.88% and maturities ranging from five months to 22 years.

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Standby Letters of Credit

Standby letters of credit are issued on behalf of customers in connection with construction contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third parties will receive specified funds if customers fail to meet their contractual obligations. The credit risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The maximum amount of potential future payments guaranteed by the Company is limited to the contractual amount of these letters. Collateral may be obtained at exercise of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The following is a summary of the total amount of unfunded commitments to extend credit and standby letters of credit outstanding at September 30, 2024 and December 31, 2023:

	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
Unused lines of credit	\$ 25,268	\$ 18,542
Standby letters of credit	24	24

Legal Proceedings

The Company and its subsidiaries may be subject to legal actions and claims arising from contracts or other matters from time to time in the ordinary course of business. Management is not aware of any pending or threatened legal proceedings that are considered other than routine legal proceedings. The Company believes that the ultimate disposition or resolution of its routine legal proceedings, in the aggregate, are not material to its financial position, results of operations or liquidity.

Mortgage Repurchase Liability

The Company has previously sold portfolio loans originated under the Advantage Loan Program to private investors in the secondary market. The Company also sold conventional residential real estate loans (which excludes Advantage Loan Program loans) in the secondary market primarily to Fannie Mae on an ongoing basis. In connection with these loans sold, the Company makes customary representations and warranties about various characteristics of each loan. The Company may be required pursuant to the terms of the applicable mortgage loan purchase and sale agreements to repurchase any previously sold loan or indemnify (make whole) the investor for which the representation or warranty of the Company proves to be inaccurate, incomplete or misleading. In the event of a repurchase, the Company is typically required to pay the unpaid principal balance, the proportionate premium received when selling the loan and certain expenses. As a result, the Company may incur a loss with respect to each repurchased loan.

Pursuant to the existing agreements with such investors, the Company also agreed to repurchase additional pools of Advantage Loan Program loans at the predetermined repurchase prices as stated in the agreements. At September 30, 2024, there is an outstanding agreement to repurchase an additional pool of Advantage Loan Program loans with an unpaid principal balance of \$13,206 that extends to July 2025, with the final decision to effect any such repurchase, as determined by the applicable investor.

At September 30, 2024 and December 31, 2023, the mortgage repurchase liability was \$600 and \$750, respectively, which is included in other liabilities in the condensed consolidated balance sheets. The unpaid principal balance of residential real estate loans sold that were subject to potential repurchase obligations in the event of breach of representations and warranties totaled \$29,005 and \$49,667 at September 30, 2024 and December 31, 2023, respectively, including Advantage Loan Program loans totaling \$24,264 and \$33,044 at September 30, 2024 and December 31, 2023, respectively.

Activity in the mortgage repurchase liability was as follows:

	<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>
Balance, beginning of period	\$ 750	\$ 809
Net recovery	(150)	(19)
Balance, end of period	<u>\$ 600</u>	<u>\$ 790</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 14, 2024 (the "2023 Form 10-K").

Unless we state otherwise or the context otherwise requires, references in this Quarterly Report on Form 10-Q to "Sterling," "we," "our," "us" or "the Company" refer to Sterling Bancorp, Inc., a Michigan corporation, and its subsidiaries, including Sterling Bank and Trust, F.S.B., which we sometimes refer to as "Sterling Bank," "the Bank" or "our Bank."

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" regarding the Company's plans, expectations, thoughts, beliefs, estimates, goals and outlook for the future. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance, including any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "attribute," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook" and "would," or the negative versions of those words or other comparable words or phrases of a future or forward-looking nature, though the absence of these words does not mean a statement is not forward-looking. All statements other than statements of historical facts, including but not limited to statements regarding expectations for the anticipated sale of the Bank and ensuing Plan of Dissolution, the economy and financial markets, credit quality, the regulatory scheme governing our industry, competition in our industry, interest rates, our liquidity, our business and our governance, are forward-looking statements. We have based the forward-looking statements in this Quarterly Report on Form 10-Q primarily on current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. These forward-looking statements are not historical facts, and they are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. There can be no assurance that future developments will be those that have been anticipated. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements.

The risks, uncertainties and other factors detailed from time to time in our public filings, including those included in the disclosures under the heading "Risk Factors" in our 2023 Form 10-K and subsequent periodic reports, could affect future results and events, causing those results and events to differ materially from those views expressed or implied in the Company's forward-looking statements. A summary of these factors is below, under the heading "Risk Factors Summary." For additional information on factors that could materially affect the forward-looking statements included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, see the risk factors set forth under "Item 1A. Risk Factors" in our 2023 Form 10-K and under "Part II, Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. You should carefully consider these risk factors in evaluating these forward-looking statements. These risks are not exhaustive. Other sections of this Quarterly Report on Form 10-Q and our other filings with the SEC include additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those projected in, or implied by, such forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update, revise, correct or review any forward-looking statement, whether as a result of new information, future developments or otherwise except as required by law. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of any particular risk, uncertainty or other factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Risk Factors Summary

The following is a summary of the material risks we are exposed to in the course of our business activities. The below summary does not contain all of the information that may be important to you, and you should read the below summary together with the more detailed discussion of risks set forth under “Part II, Item 1A. Risk Factors” and set forth under “Item 1A. Risk Factors” in our 2023 Form 10-K, as well as under this “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Risks Related to the Transaction

- The impact of the announcement and pendency of the Transaction on our current business and contractual restrictions
- The receipt of regulatory approvals and any unanticipated additional conditions that regulators may impose in order to close the Transaction
- The Stock Purchase Agreement being terminated or the Transaction not completed, and the impact of such on our business
- The Stock Purchase Agreement’s restrictions on our ability to seek alternative acquisition proposals from competing acquirers
- Shareholder litigation that could prevent or delay the completion of the Transaction

Risks Related to the Plan of Dissolution

- The timing or ultimate amount of distributions to shareholders
- Shareholder liability to third parties for part or all of the liquidating distributions if cash reserves are inadequate
- The inability of shareholders of record to buy or sell shares of common stock after we close our stock transfer books at the effective time of the dissolution
- The expense of being a public reporting company if the exit process from certain Exchange Act reporting requirements is protracted
- The loss of key personnel on our ability to efficiently dissolve, delist, liquidate and wind down

Risks Related to the Economy and Financial Markets

- The effects of fiscal and monetary policies and regulations of the federal government and the Federal Reserve
- Macroeconomic and geopolitical challenges and uncertainties affecting the stability of regions and countries around the globe and the effect of changes in the economic and political relations between the U.S. and other nations
- The disruptions to the economy and the U.S. banking system caused by recent bank failures
- Changes in the state of the general economy and the financial markets and their effects on the demand for our loan services
- The effects of fiscal challenges facing the U.S. government

Risks Related to Credit

- The credit risks of lending activities, including changes in the levels of delinquencies and nonperforming assets and changes in the financial performance and/or economic condition of our borrowers, including the effects of continued inflation and the possibility of a recession
- Our concentration in residential real estate loans
- The geographic concentration of our loans and operations in California
- The potential insufficiency of our allowance for credit losses to cover current expected credit losses in our loan portfolio

Risks Related to Interest Rates

- Negative impacts of future changes in interest rates, including an accelerated decrease in interest rates

Risks Related to Liquidity

- Our ability to ensure we have adequate liquidity
- Our ability to obtain external financing on favorable terms, or at all, in the future
- The quality of our real estate loans and our ability to sell our loans to the secondary market
- Our deposit account balances that exceed the FDIC insurance limits may expose the Bank to enhanced liquidity risk

Risks Related to Our Highly Regulated Industry

- The extensive laws and regulations affecting the financial services industry, changes in banking and securities laws and regulations and their application by our regulators in the examination process, including as a result of the bank failures in 2023, and the expensive costs of compliance related thereto
- Failure to comply with banking laws and regulations
- Enforcement priorities of the federal bank regulatory agencies

Risks Related to Competition

- Strong competition within our market areas or with respect to our products and pricing
- Our reputation as a community bank and the effects of continued negative publicity
- Our ability to keep pace with technological change and introduce new products and services
- Consumers deciding not to use banks to complete their financial transactions

Other Risks Related to Our Business

- Our ability to attract and retain key employees and other qualified personnel
- Our operational, technological and organizational infrastructure, including the effectiveness of our enterprise risk management framework at mitigating risk and loss to us
- Operational risks from a high volume of financial transactions and increased reliance on technology, including risk of loss related to cybersecurity or privacy breaches and the increased frequency and sophistication of cyberattacks
- The operational risk associated with third-party vendors and other financial institutions

- The ability of customers and counterparties to provide accurate and complete information and the soundness of third parties on which we rely
- Our employees' adherence to our internal policies and procedures
- The effects of natural disasters on us and our California borrowers and the adequacy of our business continuity and disaster recovery plans
- Environmental, Social and Governance matters and their effects on our reputation and the market price of our securities
- Climate change and related legislative and regulatory initiatives
- Adverse conditions internationally and their effects on our customers
- Fluctuations in securities markets, including changes to the valuation of our securities portfolio
- The reliance of our critical accounting policies and estimates, including for the allowance for credit losses, on analytical and forecasting techniques and models
- Compliance with the Plea Agreement and the effect of the Plea Agreement on our reputation and ability to raise capital
- Other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere herein or in the documents incorporated by reference herein and our other filings with the SEC

Risks Related to Governance Matters

- The Seligman family's ability to control the outcome of matters submitted for shareholder approval
- Our ability to pay dividends

The foregoing risk factors should not be construed as an exhaustive list and should be read in conjunction with the cautionary statements that are included under "Cautionary Note Regarding Forward-Looking Statements" above under "Item 1A. Risk Factors" in our 2023 Form 10-K and elsewhere in this Quarterly Report on Form 10-Q, including the items set forth under "Part II, Item A. Risk Factors."

Company Overview

We are a unitary thrift holding company incorporated in 1989 and headquartered in Southfield, Michigan, and our primary business is the operation of our wholly owned subsidiary, Sterling Bank, which was formed in 1984. Through Sterling Bank, we currently originate commercial real estate loans and commercial and industrial loans, and provide deposit products, consisting primarily of checking, savings and term certificate accounts. The Bank also engages in mortgage banking activities and, as such, acquires, sells and services residential mortgage loans. The Bank operates through a network of 27 branches of which 25 branches are located in the San Francisco and Los Angeles, California metropolitan areas with the remaining branches located in New York, New York and Southfield, Michigan.

Sale of the Bank and Dissolution of the Company

On September 15, 2024, we entered into the Stock Purchase Agreement with EverBank, which provides that, upon the terms and subject to the conditions set forth therein, EverBank will acquire all of the issued and outstanding shares of capital stock of the Bank from the Company for a fixed purchase price of \$261.0 million to be paid in cash to the Company. Afterward, EverBank will cause the Bank to merge with and into EverBank, National Association, the bank subsidiary of EverBank, with EverBank, National Association as the surviving bank. At that time, the separate corporate existence of the Bank will cease. The Stock Purchase Agreement contains customary representations and warranties from both EverBank and us, and we have agreed to customary covenants.

The Transaction is subject to customary closing conditions, among which include the approval of the Stock Purchase Agreement, the Transaction and the Plan of Dissolution by the requisite vote of the Company's shareholders and the receipt of required regulatory approvals. In addition, EverBank's obligation to complete the Transaction is also subject to the following conditions: (i) the sale by the Bank of its portfolio of residential tenant-in-common loans (with an aggregate principal balance of approximately \$359.6 million at September 30, 2024) and receipt by the Bank of the purchase price and (ii) the average daily closing balance of the Bank's deposits for the monthly period ending on the last day of the month before closing is not less than 85% of the average daily closing balance of such deposits for the monthly period ending on July 31, 2024.

Simultaneously with the execution of the Stock Purchase Agreement for the Transaction, the Bank entered into the Mortgage Loan Purchase Agreement with Bayview. The Mortgage Loan Purchase Agreement provides that Bayview will purchase the Bank's residential tenant-in-common mortgage loans. The Bank's obligation to consummate the sale contemplated by the Mortgage Loan Purchase Agreement is subject to certain conditions, including the receipt by the Bank of evidence of the shareholder and regulatory approvals required for the Transaction.

Also on September 15, 2024, our board of directors unanimously approved the Plan of Dissolution, which provides for the dissolution of the Company under Michigan law, subject to shareholder approval. If the Plan of Dissolution is approved, we intend to file a certificate of dissolution with the Michigan Department of Licensing and Regulatory Affairs and distribute all remaining assets, expected to be all cash, to our shareholders according to their respective rights and interests. We expect to make an initial distribution shortly after the closing of the Transaction and filing of the certificate of dissolution, with the final distribution subject to first completing the wind down of the Company and paying or providing for the Company's creditors and existing and reasonably foreseeable debts, liabilities, and obligations in accordance with Michigan law and the Plan of Dissolution.

Overview of Quarterly Performance

Our financial results for the three months ended September 30, 2024 reflect a net loss as we engaged in an extensive effort to negotiate and finalize the terms of the Transaction while continuing to work to protect both book value and liquidity. We believe our credit quality, liquidity and capital ratios are robust. Total assets increased during the three months ended September 30, 2024, with cash and due from banks increasing primarily due to net cash inflows from growth in deposits and a decline in loans. Market interest rates continue to exert pressure on our net interest margin.

Our net loss was \$(0.1) million for the three months ended September 30, 2024 compared to net income of \$0.3 million for the three months ended September 30, 2023. The net loss for the three months ended September 30, 2024 reflects a decline in net interest income from \$16.0 million during the three months ended September 30, 2023 to \$13.6 million during the three months ended September 30, 2024. The decline in our net interest income primarily reflects a significant increase in our deposit costs in the higher interest rate environment, which outpaced the increase in the yields we earned on our interest-earning assets. Our non-interest income for the three months ended September 30, 2024 was essentially unchanged from the three months ended September 30, 2023.

The decline in non-interest expense of \$2.1 million, or 12%, for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to a \$1.2 million decrease in professional fees, although results for the three months ended September 30, 2024 included increased professional fees incurred in connection with the Transaction. Professional fees decreased substantially as the last of the government investigations against the Company and the Bank were resolved in 2023.

Our credit quality remained strong overall, though nonperforming residential real estate loans have increased during 2024. Our nonperforming assets, consisting entirely of residential real estate loans, were \$13.2 million, or 0.54% of total assets, at September 30, 2024 compared to \$9.0 million, or 0.37% of total assets, at December 31, 2023. In addition, our provision for (recovery of) credit losses was \$(2.3) million during the three months ended September 30, 2024 compared to \$(1.9) million during the three months ended September 30, 2023.

At September 30, 2024, the Tier 1 capital to average total assets (leverage) ratios of both the Company and the Bank remained above the capital ratio requirements to be considered well capitalized under the applicable prompt corrective action requirements.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

During the nine months ended September 30, 2024, there were no significant changes to our accounting policies that we believe are critical to an understanding of our financial condition and results of operations, which critical accounting policies are disclosed in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s 2023 Form 10-K.

Balance Sheet and Capital Analysis

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At September 30, 2024		At December 31, 2023	
	Amount	%	Amount	%
	(Dollars in thousands)			
Real estate:				
Residential real estate	\$ 904,438	74 %	\$ 1,085,776	80 %
Commercial real estate	306,927	25 %	236,982	18 %
Construction	5,212	— %	10,381	1 %
Total real estate	1,216,577	99 %	1,333,139	99 %
Commercial and industrial	7,158	1 %	15,832	1 %
Other consumer	2	— %	1	— %
Total loans	1,223,737	100 %	1,348,972	100 %
Less: allowance for credit losses	(24,970)		(29,404)	
Loans, net	<u>\$ 1,198,767</u>		<u>\$ 1,319,568</u>	

Most of our residential loans and other commercial loans have been made to individuals and businesses in the state of California, specifically in the San Francisco and Los Angeles metropolitan areas. As of September 30, 2024, approximately 76% of our loan portfolio was based in California with 53% and 23% in the San Francisco and Los Angeles metropolitan areas, respectively.

Residential Loans. Our loan portfolio consists primarily of residential real estate loans. Our residential loans totaled \$904.4 million at September 30, 2024, a decrease of \$181.3 million, or 17%, from \$1.1 billion at December 31, 2023. This decrease includes loan payoffs prior to maturity of \$132.6 million that have occurred since December 31, 2023.

At September 30, 2024, residential real estate loans accounted for 74% of total gross loans held for investment. Our residential real estate loans include a former loan product, consisting of one-, three-, five- or seven-year adjustable-rate mortgages that required a down payment of at least 35%, that was terminated in 2019, and continues to be the largest portion of our residential loans. This former loan product totaled \$486.0 million, or 54% of gross residential loans at September 30, 2024 compared to \$628.2 million, or 58% of gross residential loans at December 31, 2023.

In early 2023, the Bank discontinued originating residential real estate loans. No new residential real estate loans were added to our residential loan portfolio during the nine months ended September 30, 2024.

Commercial Loans. We offer a variety of commercial loan products, consisting of commercial real estate loans, construction loans and commercial and industrial loans. These categories of commercial loans totaled \$319.3 million at September 30, 2024, an increase of \$56.1 million from December 31, 2023. During the three and nine months ended September 30, 2024, we originated commercial loans with an aggregate principal balance of \$59.3 million and \$125.0 million, respectively, at the time of origination. The majority of our commercial loans are secured by real estate or other business assets. Our commercial loans are almost exclusively recourse loans, as we generally obtain personal guarantees on each loan.

Commercial real estate loans totaled \$306.9 million at September 30, 2024, of which the largest portion of these loans, or 39%, are secured by multifamily properties. The repayment of commercial real estate loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy because it is dependent on the successful operation or development of the property or business involved. In addition, the collateral for commercial real estate loans is generally less readily marketable than for residential real estate loans, and its value may be more difficult to determine. A primary repayment risk for commercial real estate loans is the interruption or discontinuation of operating cash flows from the properties or businesses involved, which may be influenced by economic events, changes in governmental regulations, vacancies or other events not under the control of the borrower. Additionally, with the higher interest rate environment and slowed transaction market, the commercial real estate sector may face increased risk of economic distress. The table below summarizes the commercial real estate loan portfolio, by property type, as of September 30, 2024:

	At September 30, 2024	
	Amount (Dollars in thousands)	Percent of Total
Commercial real estate:		
Retail	\$ 57,192	19 %
Multifamily	119,760	39 %
Office	38,882	13 %
Hotels/Single-room occupancy hotels	3,501	1 %
Industrial	54,243	18 %
Mixed-Use	10,723	3 %
Other	22,626	7 %
Total	<u>\$ 306,927</u>	<u>100 %</u>

Our construction loans decreased to \$5.2 million at September 30, 2024 from \$10.4 million at December 31, 2023 due to construction loans that matured and were paid in full during the nine months ended September 30, 2024.

Our commercial and industrial loans totaled \$7.2 million at September 30, 2024, a decrease of \$8.7 million from December 31, 2023. The decrease is attributable to payments of loan principal of \$14.0 million related to a shorter term loan which was partially offset by the addition of a new loan with a principal balance of \$5.7 million at origination.

Maturities and Sensitivities of Loans to Changes in Interest Rates. The Company's loan portfolio includes adjustable-rate loans, primarily tied to Prime, U.S. Treasuries and the secured overnight financing rate ("SOFR"), and fixed-rate loans, for which the interest rate does not change through the original or remaining life of the loan. The following table sets forth the recorded investment by interest rate type in our loan portfolio at September 30, 2024:

September 30, 2024	Adjustable Rate				Fixed Rate	Total
	Prime	Treasury	SOFR	Total		
	(Dollars in thousands)					
Residential real estate	\$ 7,738	\$ 286,165	\$ 594,041	\$ 887,944	\$ 16,494	\$ 904,438
Commercial real estate	—	164,560	21,493	186,053	120,874	306,927
Construction	5,203	—	—	5,203	9	5,212
Commercial and industrial	—	346	6,281	6,627	531	7,158
Other consumer	—	—	—	—	2	2
Total	<u>\$ 12,941</u>	<u>\$ 451,071</u>	<u>\$ 621,815</u>	<u>\$ 1,085,827</u>	<u>\$ 137,910</u>	<u>\$ 1,223,737</u>
% by rate type at September 30, 2024	1 %	37 %	51 %	89 %	11 %	100 %

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Across our loan portfolio, our adjustable-rate loans are typically based on a 30-year amortization schedule and generally interest rates and payments adjust annually after a one-, three-, five- or seven-year initial fixed period. Our prime-based loans, which typically are commercial and industrial loans, construction loans and home equity loans, adjust to an interest rate equal to Prime or up to 238 basis points above Prime. Our commercial real estate loans predominately adjust based on the U.S. Treasury five-year constant maturity Treasury rate. Interest rates on our adjustable-rate SOFR-based loans adjust to an interest rate typically equal to 350 to 450 basis points above the one-year SOFR. Our Treasury-based residential loans adjust to an interest rate based on the U.S. Treasury one- and five-year constant maturity Treasury rates.

The following table sets forth the contractual maturities of our loan portfolio and sensitivities of those loans to changes in interest rates at September 30, 2024. Overdraft loans are reported as being due in one year or less. The table does not include any estimate of prepayments that could significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below.

<u>September 30, 2024</u>	<u>Due in One Year or Less</u>	<u>Due After One To Five Years</u>	<u>Due After Five To Fifteen Years (In thousands)</u>	<u>Due After Fifteen Years</u>	<u>Total</u>
Residential real estate	\$ 1	\$ 430	\$ 11,663	\$ 892,344	\$ 904,438
Commercial real estate	19,361	117,959	169,607	—	306,927
Construction	5,203	9	—	—	5,212
Commercial and industrial	346	6,812	—	—	7,158
Other consumer	2	—	—	—	2
Total	<u>\$ 24,913</u>	<u>\$ 125,210</u>	<u>\$ 181,270</u>	<u>\$ 892,344</u>	<u>\$ 1,223,737</u>
Total loans with:					
Adjustable interest rates	\$ 5,550	\$ 28,717	\$ 170,421	\$ 881,139	\$ 1,085,827
Fixed interest rates	19,363	96,493	10,849	11,205	137,910
Total loans	<u>\$ 24,913</u>	<u>\$ 125,210</u>	<u>\$ 181,270</u>	<u>\$ 892,344</u>	<u>\$ 1,223,737</u>

The table set forth below contains the repricing dates of adjustable-rate loans included within our loan portfolio as of September 30, 2024:

<u>September 30, 2024</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Other Consumer</u>	<u>Total</u>
	<u>(In thousands)</u>					
Amounts to adjust in:						
6 months or less	\$ 294,081	\$ 67,922	\$ 5,203	\$ 6,627	\$ —	\$ 373,833
After 6 months through 12 months	313,902	4,305	—	—	—	318,207
After 12 months through 24 months	106,758	928	—	—	—	107,686
After 24 months through 36 months	55,090	60,421	—	—	—	115,511
After 36 months through 60 months	72,114	51,236	—	—	—	123,350
After 60 months	45,999	1,241	—	—	—	47,240
Fixed to maturity	16,494	120,874	9	531	2	137,910
Total	<u>\$ 904,438</u>	<u>\$ 306,927</u>	<u>\$ 5,212</u>	<u>\$ 7,158</u>	<u>\$ 2</u>	<u>\$ 1,223,737</u>

At September 30, 2024, \$114.6 million, or 11%, of our adjustable interest rate loans were at their interest rate floor.

Asset Quality

Nonperforming Assets. Nonperforming assets include nonaccrual loans and loans that are past due 90 days or more and still accruing interest. Other than nonperforming loans, we do not have any other nonperforming assets. Restructuring of loans to borrowers who are experiencing financial difficulty are accounted for as a loan modification and further evaluated as to classification of a performing or nonperforming asset.

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In addition, a loan may be placed on nonaccrual at any other time management has serious doubts about further collectability of principal or interest according to the contractual terms, even though the loan is currently performing or when a loan becomes 90 days past due as to principal or interest. For nonaccrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on nonaccrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth information regarding our nonperforming loans at the dates indicated.

	At September 30, 2024	At December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans ⁽¹⁾ :		
Residential real estate	\$ 13,187	\$ 8,942
Loans past due 90 days or more and still accruing interest	27	31
Total nonperforming loans	\$ 13,214	\$ 8,973
Total loans ⁽¹⁾	\$ 1,223,737	\$ 1,348,972
Total assets	\$ 2,438,554	\$ 2,416,003
Nonaccrual loans to total loans	1.08 %	0.66 %
Nonperforming loans to total assets	0.54 %	0.37 %

(1) Loans are classified as held for investment and are presented before the allowance for credit losses.

As of September 30, 2024, nonperforming assets, comprised primarily of nonaccrual residential real estate loans, totaled \$13.2 million, an increase of \$4.2 million from December 31, 2023. This increase was primarily due to residential loans of \$9.8 million added to nonaccrual status. This increase was partially offset by loans totaling \$2.5 million that were returned to accrual status, loans paid in full totaling \$2.1 million and other payments of loan principal totaling \$1.0 million.

As a result of the increase in nonaccrual loans, the ratio of nonaccrual loans to total loans increased to 1.08% at September 30, 2024 from 0.66% at December 31, 2023. Also, our ratio of nonperforming assets to total assets increased to 0.54% at September 30, 2024 from 0.37% at December 31, 2023.

The total amount of additional interest income on nonaccrual loans that would have been recorded if the interest on all such loans had been recorded based upon the original terms was \$0.4 million and \$0.1 million for the three months ended September 30, 2024 and 2023, respectively, and \$0.8 million and \$0.2 million for the nine months ended September 30, 2024 and 2023, respectively. The Company does not record interest income on nonaccrual loans.

Delinquent Loans. The following tables set forth our loan delinquencies, including nonaccrual loans, by type and amount at the dates indicated.

	September 30, 2024			December 31, 2023		
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due
	(In thousands)					
Residential real estate	\$ 8,612	\$ 3,799	\$ 13,214	\$ 16,634	\$ 2,305	\$ 8,973

Total loans past due decreased \$2.3 million, or 8%, from \$27.9 million at December 31, 2023 to \$25.6 million at September 30, 2024. This decrease is primarily due to a \$8.0 million, or 48% decrease of loans 30-59 days past due to \$8.6 million at September 30, 2024 from \$16.6 million at December 31, 2023. Additionally, loans 90 days or more past due increased \$4.2 million, or 47%, which includes nonaccrual loans, from \$9.0 million at December 31, 2023. This increase was primarily attributable to the change in nonperforming assets discussed in “—Nonperforming Assets” above.

Classified Loans. We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans, such as residential real estate and other consumer loans, and non-homogeneous loans, such as commercial and industrial, construction and commercial real estate loans. This analysis is performed at least quarterly. The four risk categories utilized are Pass, Special Mention, Substandard and Doubtful. Loans in the Pass category are considered of satisfactory quality, while the remaining three categories indicate varying levels of increasing credit risk. See Note 5—Loans—Credit Quality to our condensed consolidated financial statements for additional information about our risk categories.

Loans criticized as Special Mention or classified as Substandard or Doubtful were as follows at the dates indicated:

	September 30, 2024	December 31, 2023
	(Dollars in thousands)	
Special Mention:		
Commercial real estate	\$ 10,335	\$ 21,516
Substandard:		
Residential real estate	13,214	8,973
Commercial real estate	21,802	18,678
Construction	5,203	8,776
Total Substandard	40,219	36,427
Total ⁽¹⁾	\$ 50,554	\$ 57,943
Total loans	\$ 1,223,737	\$ 1,348,972
Criticized and classified assets to total loans	4 %	4 %

(1) We did not have any loans classified as Doubtful at September 30, 2024 and December 31, 2023.

Total Special Mention and Substandard loans were \$50.6 million, or 4 % of total gross loans, at September 30, 2024, compared to \$57.9 million, or 4% of total gross loans, at December 31, 2023.

The decrease of \$11.2 million in Special Mention loans was primarily attributable to loans that were upgraded from Special Mention to Pass totaling \$12.9 million, as a result of five commercial real estate loans where the borrowers took actions to improve the debt service coverage ratios of their loans. Additionally, a loan in the amount of \$4.4 million was downgraded from Special Mention to Substandard. In addition, \$5.3 million of loans were downgraded from Pass to Special Mention, while \$1.1 million of Substandard loans were upgraded to Special Mention.

The increase of \$3.8 million in Substandard loans was primarily attributable to loans downgraded to Substandard totaling \$13.1 million which was partially offset by loans that were paid in full totaling \$6.1 million, payments of loan principal totaling \$0.8 million and loans that were upgraded from Substandard to Pass totaling \$2.4 million.

Allowance for Credit Losses

The allowance for credit losses is a valuation allowance estimated at each condensed consolidated balance sheet date in accordance with U.S. GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. When the Company deems all or a portion of a loan to be uncollectible the appropriate amount is written off and the allowance for credit losses is reduced by the same amount. Subsequent recoveries, if any, are credited to the allowance for credit losses when received.

The Company estimates the allowance for credit losses on loans using a Probability of Default/Probability of Attrition model which incorporates probability of default, loss given default, exposure to default and probability of attrition attributes. The model considers relevant available information at both the portfolio and loan level from internal data that is supplemented by information sourced from a third party. The model also incorporates reasonable and supportable forecasts over an 8-quarter forecast period. We continued to consider the impact of inflation and the risk of a recession in our process for estimating expected credit losses along with the uncertainty related to the severity and duration of the economic consequences resulting from such events. Our methodology and framework include an 8-quarter forecast period and 2-quarter reversion period, which is the period where the macroeconomic variables are relaxed and revert to the average historical loss rates.

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Also included in the allowance for credit losses on loans are qualitative amounts to cover risks that, in the Company's assessment, may not be adequately reflected in the quantitative analysis. Factors that the Company considers include, among other things, adjustments for imprecision inherent in the forecasts of macroeconomic variables, levels of criticized and classified loans and collection strategies management may employ to reduce these levels, portfolio dispersion and the unique characteristics of our Advantage Loan Program loans which could result in behavior different than our historic losses in a downside economic cycle.

The following table presents the activity in the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2024 and 2023:

<u>Three Months Ended September 30, 2024</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Other Consumer</u>	<u>Total</u>
(Dollars in thousands)						
Allowance for credit losses:						
Balance at the beginning of the period	\$ 12,971	\$ 13,605	\$ 809	\$ 171	\$ —	\$ 27,556
Provision for (recovery of) for credit losses	(710)	(2,109)	52	171	—	(2,596)
Net (charge offs) recoveries						
Charge offs	—	—	—	—	—	—
Recoveries	—	—	10	—	—	10
Total net (charge offs) recoveries	—	—	10	—	—	10
Total ending balance	<u>\$ 12,261</u>	<u>\$ 11,496</u>	<u>\$ 871</u>	<u>\$ 342</u>	<u>\$ —</u>	<u>\$ 24,970</u>
Average gross loans during period	<u>\$ 936,918</u>	<u>\$ 296,632</u>	<u>\$ 5,069</u>	<u>\$ 7,427</u>	<u>\$ 23</u>	<u>\$ 1,246,069</u>
Net (charge offs) recoveries to average gross loans during period	— %	— %	0.20 %	— %	— %	— %
<u>Nine Months Ended September 30, 2024</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Other Consumer</u>	<u>Total</u>
(Dollars in thousands)						
Allowance for credit losses:						
Balance at the beginning of the period	\$ 14,322	\$ 13,550	\$ 1,386	\$ 146	\$ —	\$ 29,404
Provision for (recovery of) for credit losses	(2,500)	(2,054)	(526)	196	—	(4,884)
Net (charge offs) recoveries						
Charge offs	—	—	—	—	—	—
Recoveries	439	—	11	—	—	450
Total net (charge offs) recoveries	439	—	11	—	—	450
Total ending balance	<u>\$ 12,261</u>	<u>\$ 11,496</u>	<u>\$ 871</u>	<u>\$ 342</u>	<u>\$ —</u>	<u>\$ 24,970</u>
Average gross loans during period	<u>\$ 1,002,124</u>	<u>\$ 265,260</u>	<u>\$ 5,768</u>	<u>\$ 11,110</u>	<u>\$ 32</u>	<u>\$ 1,284,294</u>
Net (charge offs) recoveries to average gross loans during period	0.04 %	— %	0.19 %	— %	— %	0.04 %
<u>Three Months Ended September 30, 2023</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Other Consumer</u>	<u>Total</u>
(Dollars in thousands)						
Allowance for credit losses:						
Balance at the beginning of the period	\$ 16,909	\$ 16,728	\$ 2,475	\$ 41	\$ —	\$ 36,153
Provision for (recovery of) for credit losses	1,307	(2,482)	(752)	40	—	(1,887)
Net (charge offs) recoveries						
Charge offs	—	—	—	—	—	—
Recoveries	—	—	1	—	—	1
Total net (charge offs) recoveries	—	—	1	—	—	1
Total ending balance	<u>\$ 18,216</u>	<u>\$ 14,246</u>	<u>\$ 1,724</u>	<u>\$ 81</u>	<u>\$ —</u>	<u>\$ 34,267</u>
Average gross loans during period	<u>\$ 1,174,052</u>	<u>\$ 228,939</u>	<u>\$ 29,337</u>	<u>\$ 17,796</u>	<u>\$ 23</u>	<u>\$ 1,450,147</u>
Net (charge offs) recoveries to average gross loans during period	— %	— %	— %	— %	— %	— %

Nine Months Ended September 30, 2023	Residential Real Estate	Commercial Real Estate	Construction	Commercial and Industrial	Other Consumer	Total
(Dollars in thousands)						
Allowance for credit losses:						
Balance at the beginning of the period	\$ 27,951	\$ 11,694	\$ 5,781	\$ 38	\$ —	\$ 45,464
Adoption of ASU 2016-13	865	1,151	(3,633)	(34)	—	(1,651)
Adoption of ASU 2022-02	(11)	—	391	—	—	380
Provision for (recovery of) for credit losses	(4,477)	1,301	(818)	77	—	(3,917)
Net (charge offs) recoveries						
Charge offs	(6,478)	—	—	—	—	(6,478)
Recoveries	366	100	3	—	—	469
Total net (charge offs) recoveries	(6,112)	100	3	—	—	(6,009)
Total ending balance	<u>\$ 18,216</u>	<u>\$ 14,246</u>	<u>\$ 1,724</u>	<u>\$ 81</u>	<u>\$ —</u>	<u>\$ 34,267</u>
Average gross loans during period	\$ 1,261,986	\$ 224,984	\$ 34,153	\$ 7,204	\$ 47	\$ 1,528,374
Net (charge offs) recoveries to average gross loans during period	(0.48)%	0.04 %	0.01 %	— %	— %	(0.39)%

Our allowance for credit losses at September 30, 2024 was \$25.0 million, or 2.04% of total loans held for investment, compared to \$29.4 million, or 2.18% of total loans held for investment, at December 31, 2023. In addition, our allowance for credit losses as a percentage of nonaccrual loans was 189% and 329% as of September 30, 2024 and December 31, 2023, respectively. The allowance for credit losses declined as a result of continued improvement in the credit quality of our commercial loan portfolio, which was somewhat mitigated by the increase in our nonperforming residential loans.

Net charge off (recoveries) were \$(10) thousand and \$(1) thousand during the three months ended September 30, 2024 and 2023. Net charge offs (recoveries) were \$(0.5) million and \$6.0 million during the nine months ended September 30, 2024 and 2023, respectively. Net charge offs during the nine months ended September 30, 2023 primarily reflects the \$6.5 million in charge offs of our recorded investment on residential loans transferred to held for sale.

The following table sets forth the allowance for credit losses allocated by loan category at the dates indicated. The allowance for credit losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance for credit losses to absorb losses in other categories.

	At September 30, 2024			At December 31, 2023		
	Allowance for Credit Losses	Percent of Allowance for Credit Losses to Category of Loans	Percent of Loans in Each Category to Total Loans	Allowance for Credit Losses	Percent of Allowance for Credit Losses to Category of Loans	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)						
Residential real estate	\$ 12,261	1.36 %	74 %	\$ 14,322	1.32 %	80 %
Commercial real estate	11,496	3.75 %	25 %	13,550	5.72 %	18 %
Construction	871	16.71 %	— %	1,386	13.35 %	1 %
Commercial and industrial	342	4.78 %	1 %	146	0.92 %	1 %
Total	<u>\$ 24,970</u>	2.04 %	<u>100 %</u>	<u>\$ 29,404</u>	2.18 %	<u>100 %</u>
Nonaccrual loans	\$ 13,187			\$ 8,942		
Nonperforming loans ⁽¹⁾	\$ 13,214			\$ 8,973		
Total loans	\$ 1,223,737			\$ 1,348,972		
Allowance for credit losses to total nonaccrual loans	189 %			329 %		
Allowance for credit losses to total loans	2.04 %			2.18 %		

(1) Nonperforming loans include loans 90 days or more past due and still accruing interest.

Although we believe that we use the best information available to establish the allowance for credit losses, future adjustments to the allowance for credit losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in determining the allowance for credit losses. Furthermore, while we believe we have established our allowance for credit losses in conformity with U.S. GAAP, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for credit losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for credit losses is adequate or that increases will not be necessary should the quality of any loans deteriorate. Any material increase in the allowance for credit losses may adversely affect our financial condition and results of operations.

Collateral-Dependent Loans

Collateral-dependent loans are those for which repayment (on the basis of the Company’s assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. As of September 30, 2024 and December 31, 2023, the amortized cost basis of collateral-dependent loans was \$3.5 million and \$4.0 million, respectively. These loans were collateralized by residential real estate property and the fair value of collateral on substantially all collateral-dependent loans were significantly in excess of their amortized cost basis loans.

Modifications to Borrowers Experiencing Financial Difficulty

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Historically, the Company has provided loan forbearances to residential borrowers when mandated and modified construction loans by providing term extensions. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were modified during the three and nine months ended September 30, 2024. The Company did not have any loans held for investment made to borrowers experiencing financial difficulty that were previously modified that subsequently defaulted during the three and nine months ended September 30, 2024.

Investment Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available for sale debt securities portfolio at the dates indicated.

	At September 30, 2024		At December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Treasury and Agency securities	\$ 184,507	\$ 182,536	\$ 253,107	\$ 248,988
Mortgage-backed securities	31,748	28,707	35,757	31,927
Collateralized mortgage obligations	234,992	225,023	151,196	138,157
Collateralized debt obligations	146	143	151	141
Total	\$ 451,393	\$ 436,409	\$ 440,211	\$ 419,213

The size of our available for sale debt securities portfolio (on an amortized-cost basis) increased by \$11.2 million, or 3%, to \$451.4 million at September 30, 2024. We continually evaluate our investment securities portfolio in response to established asset/liability management objectives and changing market conditions that could affect profitability and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities and change the composition of our investment securities portfolio. In this regard, during the nine months ended September 30, 2024, we purchased Treasury and Agency securities of \$104.6 million and collateralized mortgage obligations of \$114.7 million to replace our maturing Treasury securities of \$175.0 million to obtain higher rates of interest while still maintaining our targeted duration.

For available for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For available for sale debt securities that do not meet the aforementioned criteria, we evaluate at the individual security level whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of income taxes.

We review the debt securities portfolio on a quarterly basis to determine the cause and magnitude of declines in the fair value of each security. At September 30, 2024, gross unrealized losses on debt securities totaled \$15.4 million. Our U.S. Treasury and Agency securities, mortgage-backed securities and the majority of the collateralized mortgage obligations are issued or guaranteed by the U.S. government, its agencies and government-sponsored enterprises. The Company has a long history with no credit losses from issuers of U.S. government, its agencies and government-sponsored enterprises. As a result, management does not expect any credit losses on its available for sale debt securities. Accordingly, we have not recorded an allowance for credit losses for our available for sale debt securities at September 30, 2024.

Our equity securities consist of an investment in a qualified Community Reinvestment Act investment fund, which is a publicly-traded mutual fund, and an investment in the common equity of Pacific Coast Banker’s Bank, a thinly traded restricted stock. At September 30, 2024 and December 31, 2023, equity securities totaled \$4.8 million and \$4.7 million, respectively.

We are required to hold FHLB stock as a condition of our membership in the FHLB system. Our FHLB stock is considered a non-marketable equity security that is accounted for at cost, which equals its par value. At September 30, 2024 and December 31, 2023, we held \$18.4 million and \$18.9 million, respectively, in FHLB stock.

We are also required to hold FRB stock as a condition of our membership in the Federal Reserve, which is required of us as a covered savings association. Our FRB stock is considered a non-marketable equity security that is accounted for at cost, which equals its par value. At September 30, 2024 and December 31, 2023, we held \$9.2 million and \$9.0 million, respectively, in FRB stock.

Deposits

Deposits are the primary source of funding for the Company. We regularly review the need to adjust our deposit offering rates on various deposit products in order to maintain a stable liquidity profile and a competitive cost of funds. We obtain funds from depositors by offering a range of deposit types, including demand, savings, money market and time. The following table sets forth the composition of our deposits by account type at the dates indicated.

	At September 30, 2024	At December 31, 2023
	(In thousands)	
Noninterest-bearing deposits	\$ 31,276	\$ 35,245
Money market, savings and NOW	1,063,746	1,095,521
Time deposits	972,171	873,220
Total deposits	<u>\$ 2,067,193</u>	<u>\$ 2,003,986</u>

Total deposits were \$2.1 billion as of September 30, 2024, an increase of \$63.2 million from December 31, 2023. Our time deposits increased by \$99.0 million, or 11%. Our money market, savings and NOW deposits decreased by \$31.8 million, or 3%, and our noninterest-bearing demand deposits decreased \$4.0 million, or 11%, from December 31, 2023. We did not have any brokered deposits at September 30, 2024 and December 31, 2023. Our current strategy is to continue to offer competitive interest rates on our deposit products to maintain our existing customer deposit base and maintain our liquidity.

Our estimated uninsured deposits were \$461.1 million, or approximately 22% of total deposits, and \$434.4 million, or 22% of total deposits, at September 30, 2024 and December 31, 2023, respectively. The uninsured amounts are estimated based on methodologies and assumptions used for the Bank’s regulatory reporting requirements.

The portion of U.S. time deposit accounts that exceeded the FDIC insurance limit of \$250,000 was \$108.0 million at September 30, 2024.

Borrowings

In addition to deposits, we use short-term borrowings, such as FHLB advances and drawdowns on an overdraft credit line with the FHLB, as sources of funds to meet the daily liquidity needs of our customers. Our short-term advances with the FHLB consist primarily of advances of funds for one- or two-week periods.

On May 15, 2024, the FHLB exercised its call right to require repayment of our long-term fixed rate FHLB advance of \$50.0 million with an original maturity date of May 2029. We repaid the FHLB advance with our existing cash funds. The FHLB advance required monthly interest-only payments at 1.96% per annum.

At September 30, 2024, we had a borrowing capacity of \$409.3 million from the FHLB, which included an available line of credit of \$20.0 million. We also have available credit lines with other banks totaling \$60.0 million. There were no borrowings outstanding on the lines of credit with other banks.

Shareholders' Equity

Total shareholders' equity was \$334.6 million at September 30, 2024, compared to \$327.7 million at December 31, 2023.

Analysis of Results of Operations

General. The Company had a net loss of \$(0.1) million for the three months ended September 30, 2024 compared to net income of \$0.3 million for the three months ended September 30, 2023. Net income was \$1.0 million for the nine months ended September 30, 2024, a decrease of \$1.4 million from \$2.4 million for the nine months ended September 30, 2023.

Average Balance Sheet and Related Yields and Rates. The following table sets forth the average balance sheet, interest income or interest expense, average yields earned and interest rates paid for each category of interest-earning assets and interest-bearing liabilities, net interest spread and net interest margin on average interest-earning assets. The average balances are daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

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	As of and for the Three Months Ended September 30,					As of and for the Nine Months Ended September 30,						
	2024		Average	2023		2024		Average	2023		Average	
	Average	Interest	Yield/ Rate	Average	Interest	Average	Interest	Yield/ Rate	Average	Interest	Average	
	Balance		(Dollars in thousands)	Balance		Balance		(Dollars in thousands)	Balance		Balance	
											Rate	
Interest-earning assets												
Loans ⁽¹⁾												
Residential real estate and other consumer	\$ 936,941	\$ 16,005	6.83 %	\$ 1,174,075	\$ 17,546	5.98 %	\$ 1,002,156	\$ 50,209	6.68 %	\$ 1,272,056	\$ 54,310	5.69 %
Commercial real estate	296,632	4,160	5.61 %	228,939	2,953	5.16 %	265,260	10,625	5.34 %	225,919	8,336	4.92 %
Construction	5,069	150	11.84 %	29,337	786	10.72 %	5,768	522	12.07 %	34,153	2,640	10.31 %
Commercial and industrial	7,427	191	10.29 %	17,796	378	8.50 %	11,110	739	8.87 %	7,204	429	7.94 %
Total loans	1,246,069	20,506	6.58 %	1,450,147	21,663	5.98 %	1,284,294	62,095	6.45 %	1,539,332	65,715	5.69 %
Securities, includes restricted stock ⁽²⁾	476,506	4,993	4.19 %	400,838	3,134	3.13 %	459,603	13,769	3.99 %	380,886	8,256	2.89 %
Other interest-earning assets	650,089	8,855	5.45 %	589,267	8,081	5.49 %	623,672	25,636	5.48 %	514,957	19,890	5.15 %
Total interest-earning assets	2,372,664	34,354	5.79 %	2,440,252	32,878	5.39 %	2,367,569	101,500	5.72 %	2,435,175	93,861	5.14 %
Noninterest-earning assets												
Cash and due from banks	7,038			4,780			5,032			4,497		
Other assets	29,906			29,535			29,713			28,085		
Total assets	\$ 2,409,608			\$ 2,474,567			\$ 2,402,314			\$ 2,467,757		
Interest-bearing liabilities												
Money Market, Savings and NOW												
Time deposits	\$ 1,077,346	\$ 10,265	3.78 %	\$ 1,099,070	\$ 8,930	3.22 %	\$ 1,071,565	\$ 29,747	3.70 %	\$ 1,027,336	\$ 19,814	2.58 %
Total interest-bearing deposits	938,514	10,471	4.43 %	907,466	7,461	3.26 %	911,464	28,439	4.16 %	926,122	19,723	2.85 %
FHLB borrowings	2,015,860	20,736	4.08 %	2,006,536	16,391	3.24 %	1,983,029	58,186	3.91 %	1,953,458	39,537	2.71 %
Subordinated Notes, net	—	—	0.00 %	50,000	250	1.96 %	24,635	367	1.98 %	50,000	743	1.99 %
Total borrowings	—	—	0.00 %	9,218	243	10.32 %	—	—	0.00 %	46,370	3,727	10.60 %
Total interest-bearing liabilities	—	—	0.00 %	59,218	493	3.26 %	24,635	367	1.96 %	96,370	4,470	6.12 %
Total interest-bearing liabilities	2,015,860	20,736	4.08 %	2,065,754	16,884	3.24 %	2,007,664	58,553	3.89 %	2,049,828	44,007	2.87 %
Noninterest-bearing liabilities												
Demand deposits	31,507			42,355			32,923			45,519		
Other liabilities	33,719			48,640			34,000			57,427		
Shareholders' equity	328,522			317,818			327,727			314,983		
Total liabilities and shareholders' equity	\$ 2,409,608			\$ 2,474,567			\$ 2,402,314			\$ 2,467,757		
Net interest income and spread ⁽²⁾		\$ 13,618	1.71 %	\$ 15,994	2.15 %		\$ 42,947	1.83 %		\$ 49,854	2.27 %	
Net interest margin ⁽²⁾			2.30 %					2.42 %				2.73 %

(1) Nonaccrual loans are included in the respective average loan balances. Income, if any, on such loans is recognized on a cash basis.

(2) Interest income does not include taxable equivalence adjustments.

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods indicated. The table distinguishes between: (1) changes attributable to volume (changes in volume multiplied by the prior period's rate), (2) changes attributable to rate (change in rate multiplied by the prior period's volume) and (3) total increase (decrease) (the sum of the previous columns). Changes attributable to both volume and rate are allocated ratably between the volume and rate categories.

	Three Months Ended September 30, 2024 vs. 2023			Nine Months Ended September 30, 2024 vs. 2023		
	Increase (Decrease) due to		Net Increase (Decrease)	Increase (Decrease) due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
Change in interest income:						
Loans						
Residential real estate and other consumer	\$ (3,833)	\$ 2,292	\$ (1,541)	\$ (12,632)	\$ 8,531	\$ (4,101)
Commercial real estate	932	275	1,207	1,536	753	2,289
Construction	(710)	74	(636)	(2,505)	387	(2,118)
Commercial and industrial	(254)	67	(187)	255	55	310
Total loans	(3,865)	2,708	(1,157)	(13,346)	9,726	(3,620)
Securities, includes restricted stock	665	1,194	1,859	1,940	3,573	5,513
Other interest-earning assets	833	(59)	774	4,408	1,338	5,746
Total change in interest income	(2,367)	3,843	1,476	(6,998)	14,637	7,639
Change in interest expense:						
Money Markets, Savings and NOW	(178)	1,513	1,335	896	9,037	9,933
Time deposits	262	2,748	3,010	(315)	9,031	8,716
Total interest-bearing deposits	84	4,261	4,345	581	18,068	18,649
FHLB borrowings	(250)	—	(250)	(372)	(4)	(376)
Subordinated Notes, net	(243)	—	(243)	(3,727)	—	(3,727)
Total change in interest expense	(409)	4,261	3,852	(3,518)	18,064	14,546
Change in net interest income	\$ (1,958)	\$ (418)	\$ (2,376)	\$ (3,480)	\$ (3,427)	\$ (6,907)

Net Interest Income. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income is significantly impacted by changes in interest rates and market yield curves and their related impact on cash flows.

Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023

Net interest income was \$13.6 million for the three months ended September 30, 2024, a decrease of \$2.4 million, or 15%, from \$16.0 million for the three months ended September 30, 2023. The decrease in net interest income reflects the impact of interest expense, primarily on interest-bearing deposits, increasing more than interest income on interest-earning assets during the higher interest rate environment. The prevailing interest rate environment combined with significant competition for deposits resulted in significant disparity between the impact on interest expense compared to interest income. In addition, the decline in net interest income partially reflects the continued reduction in the average balance of our residential mortgage loan portfolio.

Interest income was \$34.4 million for the three months ended September 30, 2024, an increase of \$1.5 million, or 4%, from \$32.9 million for the three months ended September 30, 2023. The increase in interest income was primarily due to the yield earned on the average balance of our interest-earning assets. The yield on the average balance of our loan portfolio increased 60 basis points primarily due to an 85 basis point increase in the yield on our residential real estate loans as the portfolio repriced higher in the higher interest rate environment. The yield on the average balance of our securities increased 106 basis points primarily due to the yield on our recently purchased securities being higher than the yield on the average balance of our securities for the three months ended September 30, 2023. Also contributing to the increase in interest income, the average balance of our securities portfolio of \$476.5 million for the three months ended September 30, 2024 increased \$75.7 million, or 19%, compared to the three months ended September 30, 2023, and the average balance of our other interest-earning assets, which predominately consists of cash held at the Federal Reserve Bank which earns interest at the federal funds rate less 10 basis points, of \$650.1 million for the three months ended September 30, 2024 increased \$60.8 million, or 10%, compared to the three months ended September 30, 2023. Partially offsetting the increase in interest income was the decline in interest income earned on our loans since the average balance of our loans decreased \$204.1 million, or 14%.

Interest expense was \$20.7 million for the three months ended September 30, 2024, an increase of \$3.9 million, or 23%, from the three months ended September 30, 2023. Similar to our interest-earning assets, the increase in our interest expense was primarily driven by the change in interest rates. The rate paid on the average balance of interest-bearing deposits increased 84 basis points. We continued to competitively price our deposits in the higher interest rate environment and as competition for deposits significantly increased.

Net interest margin was 2.30% for the three months ended September 30, 2024, down 32 basis points from 2.62% for the three months ended September 30, 2023. The interest rate spread was 1.71% for the three months ended September 30, 2024, down 44 basis points from 2.15% for the three months ended September 30, 2023. Our net interest margin and interest rate spread were negatively impacted during the three months ended September 30, 2024 by higher interest rates paid on our interest-bearing deposits than in the comparable period in 2023, which outpaced the increase in the yield we earned on our interest-earning assets over the same period.

Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

Net interest income was \$42.9 million for the nine months ended September 30, 2024, a decrease of \$6.9 million, or 14%, from the nine months ended September 30, 2023. The decrease in net interest income primarily reflects interest expense on our interest-bearing deposits increasing more than interest income during this high interest rate environment.

Interest income was \$101.5 million for the nine months ended September 30, 2024, an increase of \$7.6 million, or 8%, compared to the nine months ended September 30, 2023. The increase in interest income was primarily due to a 58 basis point increase in the yield earned on the average balance of our total interest-earning assets with the rates on residential real estate loans, securities and other interest-earning assets increasing 99 basis points, 110 basis points and 33 basis points, respectively, as these portfolios repriced upward significantly in the higher interest rate environment. Also contributing to the increase in interest income, the average balance of our securities portfolio of \$459.6 million for the nine months ended September 30, 2024 increased \$78.7 million, or 21%, compared to the nine months ended September 30, 2023, and the average balance of our other interest-earning assets of \$623.7 million for the nine months ended September 30, 2024 increased \$108.7 million, or 21%, compared to the nine months ended September 30, 2023. Partially offsetting the increase in interest income was the decline in interest income earned on our loans since the average balance of our loans decreased \$255.0 million, or 17%.

Interest expense was \$58.6 million for the nine months ended September 30, 2024 compared to \$44.0 million for the nine months ended September 30, 2023. Similar to our interest-bearing assets, the increase in our interest expense was primarily driven by the change in interest rates. The increase in interest expense was primarily due to an increase in the rate paid on our interest-bearing deposits of 120 basis points from the nine months ended September 30, 2023. Specifically, the average rate paid on money market, savings and NOW accounts, and time deposits increased 112 basis points and 131 basis points, respectively, compared to the nine months ended September 30, 2023, as we continued to competitively price our deposits. Interest expense for the nine ended September 30, 2024 also reflected the elimination of interest expense from our Subordinated Notes, which were redeemed in the third quarter of 2023 and totaled \$3.7 million for the nine months ended September 30, 2023.

Net interest margin was 2.42% for the nine months ended September 30, 2024, down 31 basis points from 2.73% for the nine months ended September 30, 2023. The interest rate spread was 1.83% for the nine months ended September 30, 2024, down 44 basis points from 2.27% for the nine months ended September 30, 2023.

Provision for (Recovery of) Credit Losses. The following table presents the components of our provision for credit losses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
(In thousands)				
Provision for (recovery of) credit losses:				
Loans	\$ (2,596)	\$ (1,887)	\$ (4,884)	\$ (3,917)
Off-balance sheet credit exposures	258	(55)	508	(253)
Total	<u>\$ (2,338)</u>	<u>\$ (1,942)</u>	<u>\$ (4,376)</u>	<u>\$ (4,170)</u>

Our provision for (recovery of) credit losses was \$(2.3) million for the three months ended September 30, 2024 compared to \$(1.9) for the three months ended September 30, 2023. Our provision for (recovery of) credit losses was \$(4.4) million for the nine months ended September 30, 2024 compared to \$(4.2) million for the nine months ended September 30, 2023. The recovery of credit losses for the three months ended September 30, 2024 was primarily due to the reduction in the commercial real estate portfolio's allowance for credit losses reflecting the continued strong credit quality of the portfolio. In addition, the residential mortgage portfolio's allowance for credit losses declined primarily due to continued reduction in the aggregate principal balance of this portfolio while taking into account the increase in nonperforming residential mortgage loans. The recovery of credit losses for the nine months ended September 30, 2024 was primarily due to the reduction in the commercial real estate portfolio previously discussed as well as a reduction in the allowance for credit losses on our residential loans due to a decline in this portfolio, lower future loss rates on one of our residential loan products and changing economic forecasts used in the model assumptions. Partially offsetting this recovery, we increased the provision for our unfunded commitments.

The recovery for credit losses for each of the three and nine months ended September 30, 2023 primarily reflected the improvement in our overall credit quality, along with the continued reduction of the residential loan portfolio. These factors were offset in part by the increase in substandard commercial real estate loans during the nine months ended September 30, 2023, reflecting overall weakness in the commercial real estate market due to the substantial increase in market interest rates and the potential impact on borrowers' ability to make scheduled loan payments as these loans repriced or mature.

Non-interest Income. The components of non-interest income were as follows:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2024	2023	Amount	Percent	2024	2023	Amount	Percent
(Dollars in thousands)								
Service charges and fees	\$ 69	\$ 97	\$ (28)	(29)%	\$ 248	\$ 269	\$ (21)	(8)%
Loss on the sale of investment securities	—	—	—	N/M	—	(2)	2	100 %
Gain on sale of loans held for sale	—	—	—	N/M	—	1,695	(1,695)	(100)%
Unrealized gain (loss) on equity securities	160	(137)	297	N/M	94	(137)	231	N/M
Net servicing income	61	107	(46)	(43)%	182	268	(86)	(32)%
Income earned on company-owned life insurance	84	83	1	1 %	251	244	7	3 %
Other	5	234	(229)	(98)%	215	236	(21)	(9)%
Total non-interest income	<u>\$ 379</u>	<u>\$ 384</u>	<u>\$ (5)</u>	<u>(1)%</u>	<u>\$ 990</u>	<u>\$ 2,573</u>	<u>\$ (1,583)</u>	<u>(62)%</u>

N/M - not meaningful

Non-interest income was \$0.4 million for the three months ended September 30, 2024 and 2023. The fair value of an equity security improved \$0.2 million in the third quarter of 2024 as compared to a decline of \$0.1 million in the same period in the prior year. The three months ended September 30, 2023 included a gain on the extinguishment of our Subordinated Notes of \$0.2 million which was recorded in other non-interest income. Non-interest income was \$1.0 million for the nine months ended September 30, 2024, a decrease of \$1.6 million from the nine months ended September 30, 2023. The decrease was primarily due to the \$1.7 million gain recognized on the sale of loans during the nine months ended September 30, 2023.

Non-interest Expense. The components of non-interest expense were as follows:

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30,		Amount	Percent	September 30,		Amount	Percent
	2024	2023			2024	2023		
								(Dollars in thousands)
Salaries and employee benefits	\$ 8,540	\$ 8,753	\$ (213)	(2)%	\$ 25,196	\$ 27,437	\$ (2,241)	(8)%
Occupancy and equipment	2,019	2,110	(91)	(4)%	6,108	6,273	(165)	(3)%
Professional fees	3,005	4,242	(1,237)	(29)%	7,334	10,984	(3,650)	(33)%
FDIC insurance	260	274	(14)	(5)%	784	794	(10)	(1)%
Data processing	715	745	(30)	(4)%	2,190	2,237	(47)	(2)%
Other	1,071	1,578	(507)	(32)%	4,313	5,155	(842)	(16)%
Total non-interest expense	\$ 15,610	\$ 17,702	\$ (2,092)	(12)%	\$ 45,925	\$ 52,880	\$ (6,955)	(13)%

Non-interest expense of \$15.6 million for the three months ended September 30, 2024 reflected a decrease of \$2.1 million compared to the three months ended September 30, 2023, primarily due to a decrease in professional fees and other non-interest expenses. Professional fees were \$3.0 million for the three months ended September 30, 2024, a decrease of \$1.2 million, or 29%, compared to the three months ended September 30, 2023. Professional fees decreased as the government investigations against the Company and Bank have been resolved despite increased expenses related to the pending Transaction. The Company expects to incur significant expenses for professional fees through the closing of the Transaction.

Salaries and employee benefits expense decreased \$0.2 million, or 2% during the three months ended September 30, 2024 as compared to the three months ended September 30, 2023. This decrease was primarily due to planned staff reductions in various support functions.

Other non-interest expenses decreased \$0.5 million or 32% from the three months ended September 30, 2023 primarily due to lower insurance expense and advertising expenditures in 2024.

Non-interest expense of \$45.9 million for the nine months ended September 30, 2024, reflected a decrease of \$7.0 million compared to the nine months ended September 30, 2023, primarily due to decreases in salaries and employee benefits and professional fees. Professional fees were \$7.3 million for the nine months ended September 30, 2024, a decrease of \$3.7 million compared to the nine months ended September 30, 2023. Professional fees decreased substantially as the government investigations against the Company and Bank have been resolved which was partially offset by increased expenses related to the pending Transaction. The Company expects to incur significant expenses for professional fees through the closing of the Transaction. In addition, professional fees for the nine months ended September 30, 2023 was favorably impacted by reimbursements received from an insurance carrier of \$2.2 million in the first quarter of 2023 for previously incurred legal fees, including advancement of legal expenses of third parties related to the government investigations.

Salaries and employee benefits expense decreased \$2.2 million for the nine months ended September 30, 2024 compared to the same period in the prior year. This decrease was primarily due to staff reductions in various support functions. Also favorably impacting the nine months ended September 30, 2024 was a reversal of a liability in deferred compensation no longer due to a former executive.

Other non-interest expenses decreased \$0.8 million or 16% from the nine months ended September 30, 2023 primarily due to lower advertising expenditures in 2024.

Income Tax Expense. We recorded an income tax expense of \$0.9 million for the three months ended September 30, 2024 compared to an income tax expense of \$0.3 million for the three months ended September 30, 2023. We recorded an income tax expense of \$1.4 million, or an effective tax rate of 59.1%, for the nine months ended September 30, 2024 compared to an income tax expense of \$1.4 million, or an effective tax rate of 36.8%, for the nine months ended September 30, 2023. Income tax expense for the three and nine months ended September 30, 2024 includes an additional \$0.6 million of income tax expense to reverse a tax position previously taken on the deductibility of interest earned on U.S. government obligations under applicable state tax law. Our effective tax rate varies from the statutory tax rate primarily due to the additional income tax expense recorded in the three months ended September 30, 2024 as previously discussed as well as the impact of non-deductible compensation-related expenses.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations when they come due. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans to ensure we have adequate liquidity to fund our operations.

Our primary sources of funds consist of cash flows from operations, deposits, principal repayments on loans and maturities and principal receipts on our available for sale debt securities. Additional liquidity is provided by our ability to borrow from the FHLB, our ability to sell portions of our loan portfolio and access to the discount window of the Federal Reserve and brokered deposits. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

Our most liquid assets are cash and due from banks and interest-bearing time deposits with other banks. These funds offer substantial resources to meet either new loan demand or to help offset reductions in our deposit funding base. At September 30, 2024 and December 31, 2023, cash and due from banks totaled \$710.4 million and \$578.0 million, respectively. Interest-bearing time deposits with other banks totaled \$5.0 million and \$5.2 million at September 30, 2024 and December 31, 2023.

Our liquidity is further enhanced by our ability to pledge loans and investment securities to access secured borrowings from the FHLB. Our available for sale debt securities totaled \$436.4 million and \$419.2 million at September 30, 2024 and December 31, 2023, respectively. During the nine months ended September 30, 2024, we purchased Treasury and Agency securities of \$104.6 million and collateralized mortgage obligations of \$114.7 million to replace our maturing Treasury securities of \$175.0 million. We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest earning deposits and securities and (4) the objectives of our asset/liability management program. The Company's Asset Liability Management Committee monitors sources and uses of funds and modifies asset and liability positions as liquidity requirements change. Excess liquid assets are generally invested in interest-earning deposits and short-term securities.

On May 15, 2024, the FHLB exercised its call right to require repayment of the Company's long-term fixed rate FHLB advance of \$50.0 million with an original maturity date of May 2029. We repaid the FHLB advance with our existing cash funds. The FHLB advance required monthly interest-only payments at 1.96% per annum. Based on our collateral pledged to the FHLB, consisting of certain loans and investment securities, and holdings of FHLB stock, the Company had a borrowing capacity with the FHLB of \$409.3 million at September 30, 2024. We also have available credit lines with other banks totaling \$60.0 million.

Cash flows from investing activities are primarily impacted by our loan and investment securities activity, as discussed above. The Company's goal is to obtain as much of its funding for loans held for investment and other earning assets as possible from customer deposits. During the nine months ended September 30, 2024 and 2023, we originated loans with an aggregate principal balance of \$125.0 million and \$44.4 million, respectively. Cash flows provided by loan payoffs totaled \$175.6 million and \$186.9 million during the nine months ended September 30, 2024 and 2023, respectively. From time to time, we also sell residential mortgage loans in the secondary market primarily to third party investors. Often, the agreements under which we sell residential mortgage loans may contain provisions that include various representations and warranties regarding origination and characteristics of the residential mortgage loans. The Company has outstanding commitments to repurchase pools of Advantage Loan Program loans sold with an unpaid principal balance of \$13.2 million at September 30, 2024. These commitments expire in July 2025. We also have outstanding \$11.1 million of Advantage Loan Program loans that could be subject to repurchase at the demand of the investors. In addition, the unpaid principal balance of residential real estate loans, other than Advantage Loan Program loans, sold in the secondary market that were subject to potential repurchase obligations in the event of breach of representations and warranties totaled \$4.7 million at September 30, 2024. Should additional secondary market investors require us to repurchase a substantial portion of such outstanding loans subject to potential purchase, the cash required to fund these purchases will reduce our liquidity.

Cash flows from financing activities are primarily impacted by our deposits. Our total deposits were \$2.1 billion at September 30, 2024, an increase of \$63.2 million, from December 31, 2023. We generate deposits from local businesses and individuals through customer referrals and other relationships and through our retail presence. We obtain funds from depositors by offering a range of deposit types, including demand, savings, money market and time. We utilize borrowings and brokered deposits to supplement funding needs and manage our liquidity position though we have not used brokered deposits during the past four years. At September 30, 2024, time deposits due within one year were \$903.8 million, or 44% of total deposits. At December 31, 2023, time deposits due within one year were \$761.7 million, or 38% of total deposits. In addition, we estimated our total uninsured deposits were approximately 22% of total deposits at September 30, 2024. Also, cash flows from financing activities included the repayment of a FHLB advance of \$50 million in May 2024 as discussed above.

We are a party to financial instruments in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to make loans and standby letters of credit that are not reflected in our condensed consolidated balance sheets, as well as commitments on unused lines of credit that involve elements of credit and interest rate risk in excess of the amount recorded in the condensed consolidated balance sheets. Our exposure to credit loss is represented by the contractual amount of these instruments. At September 30, 2024, we had unfunded commitments to extend credit totaling \$25.3 million and standby letters of credit outstanding of \$24 thousand.

The Company is a separate and distinct legal entity from the Bank, and, on a parent company-only basis, the Company's primary source of funding is dividends received from the Bank. Federal banking regulations limit the dividends that may be paid by the Bank. Regulatory approval is required if the Bank's total capital distributions for the applicable calendar year exceed the sum of the Bank's net income for that year to date plus the Bank's retained net income for the preceding two years, or the Bank would not be at least "adequately capitalized" under applicable regulations following the distribution. Federal banking regulations also limit the ability of the Bank to pay dividends under other circumstances. After receipt of the OCC approval, the Bank paid a cash dividend of \$3.0 million to the Company during the three and nine months ended September 30, 2024.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a unitary thrift holding company, such as the Bank, must still file a notice with the FRB at least 30 days before its board of directors declares a dividend or approves a capital distribution. The Company has the legal ability to access the debt and equity capital markets for funding, although the Company currently is required to obtain the prior approval of the FRB in order to issue debt.

The Company's ability to pay cash dividends is restricted by the terms of the applicable provisions of Michigan law and the rules and regulations of the OCC and the FRB. In addition, under Michigan law, the Company is prohibited from paying cash dividends if, after giving effect to the dividend, (i) it would not be able to pay its debts as they become due in the usual course of business or (ii) its total assets would be less than the sum of its total liabilities plus the preferential rights upon dissolution of shareholders with preferential rights on dissolution that are superior to those receiving the dividend, and we are currently required to obtain the prior approval of the FRB in order to pay any dividends to our shareholders.

The Company and the Bank are subject to minimum capital adequacy requirements administered by the Federal Reserve and the OCC, respectively. We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the Federal Reserve and the OCC. We review capital levels on a quarterly basis. At September 30, 2024, the Company and the Bank met all regulatory capital requirements to which they were subject. The Company and Bank satisfied the requirements of the CBLR framework with leverage capital ratios of 14.18% and 13.72%, respectively, compared to the requirement for these ratios to be greater than 9%, and therefore are considered to have met the minimum capital requirements to be "well capitalized" under applicable prompt corrective action requirements. For further information regarding our regulatory capital requirements, refer to Note 12—Regulatory Capital Requirements to our condensed consolidated financial statements included in "Item 1. Financial Statements."

The compliance with regulatory minimum capital requirements is a tool used in assessing the Company's capital adequacy, but is not necessarily determinative of how the Company would fare under extreme stress. Factors that may affect the adequacy of the Company's capital include the inherent limitations of fair value estimates and the assumptions thereof, the inherent limitations of accounting classifications of certain investments and the effect on their measurement, external macroeconomic conditions and their effects on capital and the Company's ability to raise capital or refinance capital commitments, and extent of steps taken by state or federal governmental authorities in periods of extreme stress.

As a result of the Company's guilty plea and criminal conviction in July 2023 pursuant to our Plea Agreement with the U.S. Department of Justice, we fall within the "bad actor" disqualification provisions of Regulation A and Regulation D under the Securities Act. These provisions prohibit an issuer from offering or selling securities in a private placement in reliance on Regulation A for certain small offerings and Regulation D for certain private placement transactions for a period of up to five years under certain circumstances. The SEC may waive such disqualification upon a showing of good cause that disqualification is not necessary under the circumstances for which the safe harbor exemptions are being denied. Absent a waiver, we will be restricted in our ability to raise capital in a private placement in reliance on the safe harbors provided by Regulation A or Regulation D. We have submitted to the SEC a waiver request from the "bad actor" disqualifications. If the SEC were to deny our waiver request, we will be limited in our ability to raise capital through a private placement under Regulation A or Regulation D, although we would remain eligible as an SEC registrant to access the equity capital markets through an SEC-registered offering or through another exemption from the registration requirements.

Recently Issued Accounting Guidance

See Note 2 – Summary of Significant Accounting Policies to our condensed consolidated financial statements included in "Item 1. Financial Statements" for a discussion of recently issued accounting guidance and related impact on our financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Asset Liability Committee of our board of directors serves as oversight of our asset and liability management function, which is implemented and managed by our Management Asset Liability Committee. Our Management Asset Liability Committee meets regularly to review, among other things, the sensitivity of our assets and liabilities to product offering rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business based on a risk management infrastructure approved by our board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits, calculated quarterly, for various interest rate-related metrics, our economic value of equity ("EVE") and net interest income simulations involving parallel shifts in interest rate curves. Steepening and flattening yield curves and various prepayment and deposit duration assumptions are prepared at least annually. Our interest rate management policies also require periodic review and documentation of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates and deposit durations based on historical analysis.

We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Net Interest Income Simulation. We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest income. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates on a static balance sheet and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates and pricing decisions on loans and deposits.

Because these scenarios simulate instantaneous changes in interest rates on a static balance sheet that are subject to various assumptions, the scenarios below may not fully reflect our exposure to interest rate risk. For example, in the event of a significant decrease of the target federal funds rate by the Federal Open Market Committee we may not be able to lower our deposit rates at a similar pace in order to avoid significant deposit withdrawals as customers seek the highest yield possible for their funds. A significant, rapid decrease in interest rates could affect (i) the demand of our deposit products; (ii) our liquidity position if our depositors were to withdraw and move their funds to competing financial institutions; (iii) the expected yield of our loan portfolio and debt securities; (iv) the average duration of our loan portfolio and debt securities; (v) the fair value of our financial assets and financial liabilities; and (vi) our balance sheet mix and composition. In addition, the lack of robust loan originations will inhibit our ability to reinvest loan prepayments that occur as interest rates decline in interest earning assets at the higher end of the yield curve, thus either narrowing our interest rate spread and net interest margin or resulting in further significant decline in the size of our condensed consolidated balance sheet.

The following table presents the estimated changes in net interest income of the Bank, calculated on a bank-only basis, which would result from changes in market interest rates over a 12-month period beginning September 30, 2024 and December 31, 2023. The table below demonstrates that we are asset sensitive at September 30, 2024 and December 31, 2023. The base net interest income decreased primarily due to the asset mix of the balance sheet with the reduction of our loan portfolio, which was replaced with lower yielding cash. Sensitivity to rising interest rates increased as a result of the repricing of our residential loan and fixed-rate Treasury portfolios, and sensitivity to declining interest rates decreased due to the growth of our short-term time deposits.

Change in Interest Rates (Basis Points)	At September 30, 2024		At December 31, 2023	
	Estimated 12-Months Net Interest Income	Change (Dollars in thousands)	Estimated 12-Months Net Interest Income	Change
200	\$ 63,915	8 %	\$ 62,356	1 %
100	61,926	4 %	62,560	1 %
0	59,411	—	61,652	—
-100	57,908	(3)%	60,057	(3)%
-200	56,863	(4)%	57,636	(7)%

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an EVE model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities. EVE attempts to quantify our economic value using a discounted cash flow methodology. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent parallel shifts in the yield curves.

As described above, due to the nature of the EVE model and its underlying assumptions, the scenarios below may not fully reflect our exposure to interest rate risk. See “—Net Interest Income Simulation” above for further discussion regarding how our exposure to interest rate risk may change, particularly upon a significant, rapid decrease in interest rates.

The following table presents, as of September 30, 2024 and December 31, 2023, respectively, the impacts of immediate and permanent parallel hypothetical changes in market interest rates on EVE of the Bank, calculated on a bank-only basis. The base EVE increased from December 31, 2023 primarily from Residential loan valuation improvements related to the lower yield curve. The balance sheet was less sensitive to rising interest rates at September 30, 2024 due primarily to curve-related effects on residential loan values. Since EVE is a long-term measurement of value, the change in EVE is not indicative of the short term (12-months) effects on earnings.

Change in Interest Rates (Basis Points)	At September 30, 2024		At December 31, 2023	
	Economic Value of Equity	Change (Dollars in thousands)	Economic Value of Equity	Change
200	\$ 288,405	(11)%	\$ 261,202	(17)%
100	309,596	(4)%	293,190	(6)%
0	322,741	—	313,220	—
-100	331,746	3 %	322,399	3 %
-200	337,599	5 %	326,171	4 %

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates. Accordingly, the data presented in the tables in this section should not be relied upon as indicative of actual results in the event of changes in interest rates and the resulting EVE and net interest income estimates are not intended to represent and should not be construed to represent our estimate of the underlying EVE or forecast of net interest income. Furthermore, the EVE presented in the foregoing table is not intended to present the fair market value of the Company, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Company.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the Company's reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the specified time periods in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of September 30, 2024. Based on these evaluations, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2024.

Changes in Internal Control Over Financial Reporting

Our management is required to evaluate, with the participation of our Chief Executive Officer and our Chief Financial Officer, any changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during each quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no changes in our internal control over financial reporting during the three months ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except as set forth below, we are not aware of any material developments to our pending legal proceedings as disclosed in the Company's 2023 Form 10-K, nor are we involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that such routine legal proceedings, in the aggregate, are not material to our financial condition and results of operations.

Sterling Bank and Trust, F.S.B. and Sterling Bancorp, Inc. vs. Scott Seligman, et al.

On October 7, 2022, the Company and the Bank commenced an action against the Bank's founder and controlling shareholder, Scott Seligman, and other nominal defendants, in the United States District Court for the Eastern District of Michigan styled *Sterling Bank and Trust, F.S.B. and Sterling Bancorp, Inc. vs. Scott Seligman, et al.*, No. 2:22-cv-12398-SFC-DRG (E.D. Mich.). On September 25, 2024, the Company and the Bank entered into a Settlement Agreement and General Release with Scott Seligman, pursuant to which, among other things, the Company and the Bank agreed to dismiss their action, and Scott Seligman agreed to irrevocably discharge and release the Company and the Bank from any and all claims and covenanted not to sue the Company or the Bank on any and all claims, including claims with respect to the Company's entrance into, approval and adoption of the Stock Purchase Agreement and Plan of Dissolution.

ITEM 1A. RISK FACTORS

Except as described herein, there are no material changes from the risk factors as disclosed in the Company's 2023 Form 10-K.

Risks Related to the Transaction

The announcement and pendency of the Transaction may adversely affect our business, financial condition, and results of operations.

Uncertainty about the effect of the Transaction on our associates, clients, and other parties may have an adverse effect on our business, financial condition, and results of operations regardless of whether the Transaction is completed. These risks to our business include the following, among others, all of which may be exacerbated by a delay in the completion of the Transaction: (i) the impairment of our ability to attract, retain, and motivate our employees; (ii) the diversion of significant management time and attention from ongoing business operations towards the completion of the Transaction; (iii) difficulties maintaining relationships with clients, suppliers and other business partners; (iv) delays or deferments of certain business decisions by our clients, suppliers and other business partners; (v) the inability to pursue alternative business opportunities or make appropriate changes to our business because the Transaction requires us to, subject to certain exceptions, conduct business in the ordinary course of business and to not engage in certain kinds of transactions prior to the completion of the Transaction without the prior written consent of EverBank, even if such actions could prove beneficial; (vi) litigation relating to the Transaction and the costs and uncertainties related thereto; and (vii) the incurrence of significant costs, expenses, and fees for professional services and other Transaction costs in connection with the Transaction.

Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated.

The completion of the Transaction is conditioned on the receipt of all required regulatory approvals, the continuation of such regulatory approvals in full force and effect, the expiration of any applicable waiting periods relating to such regulatory approvals, and the absence of any material burdensome condition from such regulatory approvals. Even if the required regulatory approvals are received, the approvals may impose terms, conditions, limitations, obligations, or costs, may place restrictions on the conduct of our business or the conduct of EverBank's business after the closing, or may require changes to the terms of the Transaction. There can be no assurance that regulators will not impose any such terms, conditions, limitations, obligations, restrictions or changes or that such terms, conditions, limitations, obligations, restrictions or changes will not have the effect of delaying the completion of the Transaction. In addition, there can be no assurance that any such terms, conditions, limitations, obligations, restrictions or changes will not result in the termination of the Stock Purchase Agreement and abandonment of the Transaction.

The Federal Reserve and the OCC take into consideration a number of factors when reviewing bank merger and acquisition proposals under the Bank Holding Company Act of 1956 and the Bank Merger Act, respectively. These factors include the effect of the transaction on competitiveness in affected banking markets, the financial and managerial resources of the companies and banks involved (including consideration of the capital adequacy, liquidity, and earnings performance, as well as the competence, experience and integrity of the officers, directors and principal shareholders, and the records of compliance with applicable laws and regulations) and future prospects of the combined organization. The Federal Reserve and the OCC also consider the effectiveness of the applicant in combatting money laundering, the convenience and needs of the communities to be served, as well as the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. Neither the Federal Reserve nor the OCC may approve a proposal that would have significant adverse effects on competition or on the concentration of resources in any banking market.

The Stock Purchase Agreement may be terminated in accordance with its terms, and the Transaction may not be completed.

The Stock Purchase Agreement is subject to a number of conditions which must be fulfilled in order to complete the Transaction. Those conditions include: (i) the approval of the Stock Purchase Agreement, the Transaction and the Plan of Dissolution by the affirmative vote of a majority of all the votes entitled to be cast on such matters by holders of our common stock, (ii) the absence of any law, statute, rule, regulation, executive order, decree, ruling, injunction (whether temporary, preliminary or permanent) or other order which has the effect of restraining, enjoining or otherwise prohibiting or making illegal the consummation of the Transaction, and (iii) the receipt of the regulatory approvals with respect to the Stock Purchase Agreement, the Transaction and the bank merger by the Federal Reserve and the OCC as described above. In addition, EverBank's obligation to complete the Transaction is also subject to the following conditions: (i) the sale by the Bank of its portfolio of residential tenant-in-common loans to Bayview and receipt by the Bank of the purchase price specified in such agreement and (ii) the average daily closing balance of the Bank's deposits for the monthly period ending on the last day of the month before closing is not less than 85% of the average daily closing balance of such deposits for the monthly period ending on July 31, 2024. Each party's obligation to complete the Transaction is also subject to certain additional conditions, including (a) subject to certain exceptions, the accuracy of the representations and warranties of the other party and (b) performance in all material respects by the other party of its obligations under the Stock Purchase Agreement.

These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the Transaction may not be completed. In addition, the parties can mutually decide to terminate the Stock Purchase Agreement at any time, before or after the shareholder approval. Also, either EverBank or we may elect unilaterally to terminate the Stock Purchase Agreement in certain circumstances.

Failure to complete the Transaction could negatively impact us.

If the Transaction is not completed for any reason, including as a result of our shareholders failing to approve the Transaction or as a result of the failure to obtain all needed regulatory approvals, there may be various adverse consequences and we may experience negative reactions from the financial markets and from our clients and associates.

For example, our business may be impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Transaction. Additionally, termination of the Transaction would likely have a negative effect on our market price. We also could be subject to litigation related to any failure to complete the Transaction or to proceedings commenced against us to perform our obligations under the Transaction. If the Stock Purchase Agreement is terminated under certain circumstances, including if the Company terminates the Stock Purchase Agreement to accept a superior proposal or if EverBank terminates the Stock Purchase Agreement after the board of directors changes its recommendation for shareholders to vote in favor of the Stock Purchase Agreement, we would be required to pay to EverBank a termination fee of up to \$9,135,000.

Additionally, we expect to incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Stock Purchase Agreement, as well as the costs and expenses of preparing, filing, printing, and mailing a proxy statement, and all filing and other fees paid in connection with the Transaction. If the Transaction is not completed, we would have to pay a large portion of these expenses without realizing the expected benefits of the Transaction.

We will be subject to business uncertainties and contractual restrictions while the Transaction is pending.

Uncertainty about the effect of the Transaction on associates and clients may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel pending completion of the Transaction, and could cause clients and others that deal with us to seek to change existing business relationships with us. In addition, subject to certain exceptions, we have agreed to operate our business in the ordinary course prior to the closing, and we are restricted from making certain acquisitions and taking other specified actions without the consent of EverBank. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Transaction.

The Stock Purchase Agreement contains provisions that could discourage a potential competing acquiror that might be willing to pay more to acquire or merge with us.

The Stock Purchase Agreement contains provisions that restrict our ability to, among other things, initiate, solicit, knowingly encourage or knowingly facilitate, inquiries or proposals with respect to, or, subject to certain exceptions generally related to the exercise of fiduciary duties by our board of directors, engage in any negotiations concerning, or provide any confidential or nonpublic information or data relating to, any alternative acquisition proposals. These provisions, which include a termination fee of up to \$9,135,000 payable by us under certain circumstances, might discourage a potential competing acquiror that might have an interest in acquiring the Company, the Bank or a significant part of the Bank's assets from considering or proposing that acquisition even if it were prepared to pay a consideration with a higher per share price to our shareholders than what is contemplated in the Transaction, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire us than it might otherwise have proposed to pay.

Shareholder litigation could prevent or delay the completion of the Transaction or otherwise negatively impact our business and operations.

One or more of our shareholders may file lawsuits against us and/or our directors and officers in connection with the Transaction. One of the conditions to the closing is the absence of any law, statute, rule, regulation, executive order, decree, ruling, injunction (whether temporary, preliminary or permanent) or other order which has the effect of restraining, enjoining or otherwise prohibiting or making illegal the consummation of the Transaction. If any plaintiff were successful in obtaining an injunction prohibiting us from completing the Transaction, then such injunction may delay or prevent the effectiveness of the Transaction and could result in significant costs to us, including any cost associated with the indemnification of our directors and officers. If a shareholder lawsuit is filed in connection with the Transaction, we may incur costs in connection with the defense or settlement of such lawsuit. Such litigation could have an adverse effect on our financial condition and results of operations and could prevent or delay the completion of the Transaction.

Risks Related to the Plan of Dissolution

We cannot assure you as to the timing, amount, or number of distributions, if any, to be made to our shareholders.

Our current intention is that, if our shareholders approve the Plan of Dissolution at the Special Meeting, the Company would file a certificate of dissolution with the Michigan Department of Licensing and Regulatory Affairs; however, the Company's board of directors would retain the discretion to determine not to proceed with the dissolution in its sole discretion and, if it does proceed with the dissolution, would have discretion as to the timing of the filing of the certificate of dissolution. No further shareholder approval would be required to effect the dissolution. However, if the board of directors determines prior to complete distribution of the Company's assets that the dissolution is not in the Company's best interest or in the best interest of our shareholders, the board of directors may, in its sole discretion, abandon the dissolution and terminate the Plan of Dissolution, subject to approval by the Company's shareholders. Revocation of the dissolution would require the board of directors to adopt a resolution revoking dissolution which would then require shareholder approval under Michigan law.

Under the Michigan Business Corporation Act (the "MBCA"), a dissolved corporation continues its existence after dissolution for such period as is necessary to complete the winding down of its affairs, including the payment of its debts, obligations and other liabilities and the distribution of its remaining assets to its shareholders. Any action, suit or proceeding begun by or against the corporation before or during the wind down period does not terminate by reason of the dissolution, and for the purpose of any such action, suit or proceeding, the corporation will continue beyond the dissolution until any related final judgments, orders or decrees are rendered, without the necessity for any special direction by the applicable court. A dissolved corporation must pay or make provision for the payment (or reservation of funds as security for payment) of its debts, obligations and liabilities and claims against the corporation in accordance with the applicable provisions of the MBCA before the distribution of remaining assets to the corporation's shareholders.

Any distribution to our shareholders will not occur until after the certificate of dissolution is filed, and we cannot predict with certainty the timing, amount, or number of any such distributions, or whether any such distributions will occur, as uncertainties as to the ultimate amount and scope of our liabilities, the operating costs and amounts to be set aside for claims, debts, obligations and provisions during the dissolution and wind down process, and the related timing to complete the wind down of our affairs, make it impossible to predict with certainty the actual net cash amount, if any, that will ultimately be available for distribution to shareholders or the timing of any such distributions. Among other things, our potential liabilities that may require provision could include those relating to indemnification obligations, if any, to third parties or to our current and former officers and directors, and to resolve any shareholder or other litigation that may emerge, even though none is now pending or to our knowledge threatened. Examples of uncertainties that could reduce the value of distributions to our shareholders include: the incurrence by the Company of expenses relating to the dissolution being different than estimated; unanticipated costs relating to the defense, satisfaction or settlement of lawsuits or other claims that may be threatened against us or our current or former directors or officers; amounts necessary to resolve claims of any creditors or other third parties; and delays in the dissolution and wind down process.

If it was determined by a court that we failed to make adequate provision for expenses, debts, obligations and liabilities or if the amount required to be paid in respect of such expenses, debts, obligations and liabilities exceeded the amount available from the reserve, a creditor could seek an injunction against the making of liquidating distributions under the Plan of Dissolution on the grounds that the amounts to be distributed were needed to provide for the payment of expenses and liabilities. Any such action could delay, substantially diminish or negate the cash distributions contemplated to be made to shareholders under the Plan of Dissolution.

In addition, as we wind down, we will continue to incur expenses from operations, including directors' and officers' insurance, severance payments, payments to service providers and any continuing employees or consultants, taxes, legal, accounting and consulting fees, costs associated with maintaining the listing of our common stock, and/or its delisting, and expenses related to our filing obligations with the SEC and/or others, which will reduce any amounts available for distribution to our shareholders. As a result, we cannot assure you as to the amounts, if any, that may ultimately be distributable or distributed to our shareholders if the Transaction is completed and the board of directors proceeds with the dissolution. If our shareholders do not approve the Plan of Dissolution, we will not be able to proceed with the dissolution and no liquidating distributions will be made in connection therewith.

It is the current intent of the board of directors, assuming approval of the dissolution and the Plan of Dissolution, that any cash will first be used to pay our outstanding current liabilities and obligations (including all transaction expenses incurred in connection with the negotiation and consummation of the Stock Purchase Agreement and any claims or demands received by the Company on behalf of any of its shareholders), and then will be retained to pay ongoing corporate and administrative costs and expenses associated with winding down the Company, liabilities and potential liabilities relating to or arising out of any litigation matters and potential liabilities relating to our indemnification obligations, if any, to our service providers, or to our current and former officers and directors, before such cash, if any remains, will be available for distribution to shareholders.

The board of directors will determine, in its sole discretion, the timing and number of the distributions of the remaining amounts, if any, to our shareholders in the dissolution. We can provide no assurance as to if or when any such distributions will be made, and we cannot provide any assurance as to the amounts, if any, that may ultimately be distributable or distributed to our shareholders in any such distributions, if any are to be made. Shareholders may receive substantially less than the amount that we currently estimate that they may receive, or they may receive no distribution at all.

Our shareholders may be liable to third parties for part or all of the amount received from us in our liquidating distributions if cash reserves are inadequate.

If the dissolution becomes effective, we are required to establish a cash reserve designed to satisfy any additional claims and obligations that may arise. Any reserve may not be adequate to cover all of our claims and obligations. Under the MBCA, in the event we fail to create an adequate reserve for the payment of expenses and liabilities and amounts have been distributed to the shareholders under the Plan of Dissolution, creditors may be able to pursue claims against shareholders directly to the extent that they have claims co-extensive with such shareholders' receipt of liquidating distributions. Accordingly, in such event, a shareholder could be required to return part or all of the distributions previously made to such shareholder, and a shareholder could ultimately receive nothing from us under the Plan of Dissolution. Moreover, if a shareholder has paid taxes on amounts previously received, a repayment of all or a portion of such amount could result in a situation in which a shareholder may incur a net tax cost if the repayment of the amount previously distributed does not cause a commensurate reduction in taxes payable in an amount equal to the amount of the taxes paid on amounts previously distributed.

Our shareholders of record will not be able to buy or sell shares of our common stock after we close our stock transfer books at the effective time of the dissolution.

If the board of directors determines to proceed with the dissolution, we intend to close our stock transfer books and discontinue recording transfers of our common stock at the effective time of the dissolution. After we close our stock transfer books, we will not record any further transfers of our common stock on our books except at our sole discretion by will, intestate succession, or operation of law. Therefore, shares of our common stock will not be freely transferable after the effective time. As a result of the closing of the stock transfer books, all liquidating distributions in the dissolution will likely be made to the same shareholders of record as the shareholders of record as of the effective time.

We plan to initiate steps to exit from certain reporting requirements under the Exchange Act, which may substantially reduce publicly available information about us. If the exit process is protracted, we will continue to bear the expense of being a public reporting company despite having no source of revenue.

Our common stock is currently registered under the Exchange Act, which requires that we, and our officers and directors with respect to Section 16 of the Exchange Act, comply with certain public reporting and proxy statement requirements thereunder. Compliance with these requirements is costly and time consuming. We plan to initiate steps to exit from such reporting requirements in order to curtail expenses; however, such process may be protracted and we may continue to be required to file Current Reports on Form 8-K to disclose material events, including those related to the dissolution, and other reports, including an Annual Report on Form 10-K for the year ending December 31, 2024. Accordingly, we may continue to incur expenses that will reduce any amount available for distribution, including expenses of complying with public company reporting requirements and paying our service providers, among others. If our reporting obligations cease, publicly available information about us will be substantially reduced.

The loss of key personnel could adversely affect our ability to efficiently dissolve, delist, liquidate, and wind down.

We intend to rely on a few individuals in key management roles and contractor support to dissolve, delist from Nasdaq, liquidate our remaining assets, and wind down operations. Loss of one or more of these key individuals, or inability to contract with essential personnel, could hamper the efficiency or effectiveness of these processes, and may substantially increase the cost of the dissolution as we may need to rely on the services of third party restructuring and consulting firms to assist with the wind down and dissolution.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

Withholding of Vested Restricted Stock Awards

During the three months ended September 30, 2024, the Company withheld shares of common stock representing a portion of the restricted stock awards that vested during the period under our employee stock benefit plans in order to pay employee tax liabilities associated with such vesting. These withheld shares are treated the same as repurchased shares for accounting purposes.

The following table provides certain information with respect to our purchases of shares of the Company’s common stock, as of the settlement date, during the three months ended September 30, 2024, all of which represent tax withholding of restricted stock awards:

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
July 1 - 31, 2024	43,883	\$ 5.23	—	\$ 19,568,117
August 1 - 31, 2024	—	—	—	19,568,117
September 1 - 30, 2024	383	5.75	—	19,568,117
Total	44,266	\$ 5.23	—	

(1) These shares were acquired from employees to satisfy income tax withholding requirements in connection with vesting share awards during the three months ended September 30, 2024.

(2) In 2018, the Company announced a stock repurchase program for up to \$50 million of its outstanding stock. At September 30, 2024, \$19.6 million remains of the \$50 million authorized repurchase amount. In March 2020, the Company suspended the stock repurchase program.

We are currently required to obtain approval of the FRB prior to engaging in a repurchase of our common stock other than a purchase of shares to satisfy income tax withholding requirements.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

A list of exhibits to this Form 10-Q is set forth in the Exhibit Index below.

Exhibit Number	Exhibit Description	Filed /Furnished Herewith	Incorporated by Reference			
			Form	Period Ending	Exhibit / Appendix Number	Filing Date
2.1	Stock Purchase Agreement, dated as of September 15, 2024, by and among Sterling Bancorp, Inc., Sterling Bank and Trust, F.S.B. and EverBank Financial Corp		8-K		2.1	09/17/2024
2.2	Mortgage Loan Purchase Agreement, dated as of September 15, 2024, by and between Sterling Bank and Trust, F.S.B. and Bayview Acquisitions LLC		8-K		2.2	09/17/2024
2.3	Plan of Dissolution, as approved by the board of directors of Sterling Bancorp, Inc. on September 15, 2024		8-K		2.3	09/17/2024
10.1+	Change of Control Agreement, dated as of September 3, 2024, by and between Sterling Bank and Trust, F.S.B. and Karen Knott		8-K		10.1	09/03/2024
10.2	Voting and Support Agreement, dated as of September 15, 2024, by and among EverBank Financial Corp, Sterling Bancorp, Inc., and K.I.S.S. Dynasty Trust No. 9		8-K		10.1	09/17/2024
10.3	Voting and Support Agreement, dated as of September 15, 2024, by and among EverBank Financial Corp, Sterling Bancorp, Inc., and K.I.S.S. Bank Stock Trust		8-K		10.2	09/17/2024
10.4+	Change of Control Agreement, dated as of June 21, 2023, by and between Sterling Bank and Trust, F.S.B. and Eleni Willis	X				
31.1	Section 302 Certification — Chief Executive Officer	X				
31.2	Section 302 Certification — Chief Financial Officer	X				
32.1*	Section 906 Certification — Chief Executive Officer	X				
32.2*	Section 906 Certification — Chief Financial Officer	X				
101.INS**	Inline XBRL Instance Document	X				

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101.SCH	Inline XBRL Taxonomy Extension Schema Document	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	X

* This document is being furnished with this Quarterly Report on Form 10-Q. This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act, or the Exchange Act.

** The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

Date: November 7, 2024

STERLING BANCORP, INC.
(Registrant)

By: /s/ THOMAS M. O'BRIEN
Thomas M. O'Brien
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ KAREN KNOTT
Karen Knott
Chief Financial Officer
(Principal Financial and Accounting Officer)

CHANGE OF CONTROL AGREEMENT

This **CHANGE OF CONTROL AGREEMENT** (the “Agreement”) is made and entered into as of June 21, 2023 between Sterling Bank and Trust, F.S.B. (the “Bank”) and Eleni Willis (the “Officer”).

INTRODUCTORY STATEMENT

The Officer is an employee of the Bank, which is a wholly owned subsidiary of Sterling Bancorp, Inc. (the “Company”). The Boards of Directors of the Company and the Bank have concluded that it is in the best interests of the Company, the Bank and their shareholders to establish a working environment for the Officer which minimizes the personal distractions that might result from possible changes in control in which the Company or the Bank might be involved. The Boards of Directors of the Company and the Bank have concluded that it is in the best interests of the Bank and the Company to provide the Officer with assurance that he or she will receive payment equal to one year’s salary if his or her employment is terminated for certain specified reasons within one (1) year after a Change of Control or Pending Change of Control as defined herein on the terms set forth herein.

The terms and conditions which the Bank and the Officer have agreed to are as follows.

AGREEMENT**Section 1. Term; Change of Control and Pending Change of Control Defined.**

(a) This Agreement shall be in effect during the period (the “Term”) beginning on the date first above written (the “Effective Date”) and ending on the third anniversary of the Effective Date or, if earlier, the first anniversary of the Change of Control as defined below.

(b) A “Change of Control” shall be deemed to have occurred upon the happening of any of the following events:

(i) the consummation of a reorganization, merger or consolidation of the Company with one or more other persons, other than a transaction following which:

(A) at least 51% of the equity ownership interests of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Securities and Exchange Act of 1934 (“Exchange Act”) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the outstanding equity ownership interests in the Company; and

(B) at least 51% of the securities entitled to vote generally in the election of directors of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the securities entitled to vote generally in the election of directors of the Company;

(ii) the acquisition of all or substantially all of the assets of the Company or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the outstanding securities of the Company entitled to vote generally in the election of directors by any person or by any persons acting in concert;

(iii) a complete liquidation or dissolution of the Company; or

(iv) any event which would be described in sections (i), (ii) or (iii) if the term “Bank” were substituted for the term “Company” therein.

In no event, however, shall a Change of Control be deemed to have occurred as a result of any acquisition of securities or assets of the Company, the Bank, or a subsidiary of either of them, by the Company, the Bank, or any subsidiary of either of them, or by any employee benefit plan maintained by any of them, or as a result of any recapitalization or other stock issuance initiated by the Company or the Bank. For purposes of this section 1(b), the term “person” shall have the meaning assigned to it under sections 13(d)(3) or 14(d)(2) of the Exchange Act.

(c) For purposes of this Agreement, a “Pending Change of Control” shall mean: (i) the signing of a definitive agreement for a transaction which, if consummated, would result in a Change of Control; or (ii) the commencement of a tender offer which, if successful, would result in a Change of Control. In the event that such transaction or tender offer which constituted a Pending Change of Control is terminated before a Change of Control occurs, the Pending Change of Control shall be treated as if it had not occurred following such termination.

Section 2. Discharge Prior to a Pending Change of Control.

The Bank or the Company may discharge the Officer at any time prior to the occurrence of a Pending Change of Control for any reason or for no reason. In such event:

(a) The Bank shall pay to the Officer (or, in the event of the Officer’s death before payment, the Officer’s estate) the Officer’s earned but unpaid compensation (including, without limitation, salary and all other items which constitute wages under applicable law) as of the date of the Officer’s termination of employment. This payment shall be made at the time and

in the manner prescribed by law applicable to the payment of wages but in no event later than 30 days after the date of the Officer's termination of employment.

(b) The Bank shall provide the benefits, if any, due to the Officer, the Officer's estate, surviving dependents or designated beneficiaries under the employee benefit plans and programs and compensation plans and programs maintained for the benefit of the officers and employees of the Bank, including the annual and long-term bonuses (if any) to which the Officer is entitled under any cash-based annual bonus or performance compensation plan in effect for the year in which his or her termination occurs, to be paid at the same time and on the terms and conditions (including but not limited to achievement of performance goals) applicable under the relevant plan. The time and manner of payment or other delivery of these benefits and the recipients of such benefits shall be determined according to the terms and conditions of the applicable plans and programs. The Bank shall also provide any continuation rights required by Consolidated Omnibus Reconciliation Act of 1985 ("COBRA") or similar state law, at the expense of the Officer.

The payments and benefits described in sections 2 (a) and (b) shall be referred to in this Agreement as the "Standard Termination Entitlements."

Section 3. Termination of Employment Due to Death.

The Officer's employment with the Bank shall terminate, automatically and without any further action on the part of any party to this Agreement, on the date of the Officer's death. In such event, the Bank shall pay and deliver to the Officer's estate and surviving dependents and beneficiaries, as applicable, the Standard Termination Entitlements.

Section 4. Termination Due to Disability after a Pending Change of Control.

The Bank or the Company may terminate the Officer's employment during the Term and after the occurrence of a Change of Control or a Pending Change of Control upon a determination, by vote of a majority of the members of the Board of Directors of the Bank or the Company, acting in reliance on the written advice of a medical professional acceptable to them and reasonably acceptable to Officer or his or her guardian, that the Officer is suffering from a "Disability," which shall mean a physical or mental impairment which, at the date of the determination, has prevented the Officer from performing his or her assigned duties on a substantially full-time basis for a period of at least sixty (60) days during the period of six (6) months ending with the date of the determination or is likely to result in death or prevent the Officer from performing his or her assigned duties on a substantially full-time basis for a period of at least sixty (60) days during the period of six (6) months beginning with the date of the determination. As a condition to any benefits, the Board of Directors may require the Officer to submit to such physical or mental evaluations and tests as it deems reasonably appropriate. In such event:

(a) The Bank shall pay and deliver to the Officer (or in the event of his or her death before payment, to the Officer's estate and surviving dependents and beneficiaries, as applicable) the Standard Termination Entitlements.

(b) In addition to the Standard Termination Entitlements, in the event that the Officer's employment terminates during the Term and after the occurrence of a Change of Control or a Pending Change of Control, the Bank shall continue to pay the Officer his or her base salary, at the annual rate in effect for him or her immediately prior to the termination of his or her employment, during a period ending on the earliest of: (i) the expiration of one hundred and eighty (180) days after the date of termination of his or her employment; (ii) the date on which long-term disability insurance benefits are first payable to him or her under any long-term disability insurance plan covering employees of the Bank; and (iii) the date of his or her death.

Section 5. Discharge with Cause after a Pending Change of Control.

(a) The Bank or the Company may terminate the Officer's employment with "Cause" during the Term and after the occurrence of a Change of Control or Pending Change of Control, but a termination shall be deemed to have occurred with "Cause" only if the Officer: (i) has willfully failed or refused to perform his or her assigned duties in any material respect (including, for these purposes, the Officer's inability to perform such duties as a result of drug or alcohol dependency); (ii) has committed gross negligence in the performance of, or is guilty of continual neglect of, his or her assigned duties; (iii) has been convicted or entered a plea of guilty or *nolo contendere* to, the commission of a felony or any other crime involving dishonesty, personal profit or other circumstance likely, in the reasonable judgment of the Board of Directors of the Bank, to have a material adverse effect on the Bank and the Company or their business, operations or reputation taken as a whole; (iv) has willfully violated, in any material respect, any law, rule, regulation, written agreement or final cease-and-desist order applicable to the Bank or the Company in his or her performance of services for the Bank or the Company or the Company's or the Bank's code of conduct; or (v) has willfully and intentionally breached the material terms of this Agreement in any material respect. For purposes of this definition, no act or failure to act on the part of Officer shall be considered "willful" unless it is done, or omitted to be done, by the Officer in bad faith or without reasonable belief that the Officer's action or omission was in the best interests of the Bank and the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company, the Board of Directors of the Bank or the Executive Committee of either board or based upon the written advice of counsel for the Bank shall be conclusively presumed to be done, or omitted to be done, by Officer in good faith and in the best interests of the Bank and the Company. Any such determination must be made by a majority vote of the entire membership of the Board of Directors of the Bank at a meeting of the Board of Directors called and held for that purpose, finding that, in the good faith opinion of the Board of Directors, the Officer's conduct satisfies the requirements for termination for Cause. Termination for Cause shall be effected by written Notice of Termination (as described below) to the Officer setting forth with particularity the grounds for termination. Notwithstanding any other provision to the contrary, and for the avoidance of doubt,

other than with respect to earned but unpaid salary and such other vested benefits as are set forth in this Agreement and in any other agreement or plan, the Officer shall not have the right to receive compensation or other benefits for any period after termination for Cause. For purposes of this Agreement, a “Notice of Termination” shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon to provide a basis for termination of Officer’s employment.

(b) In the event the Officer’s employment is terminated with Cause, as provided in this Section 5, the Bank shall pay and deliver to the Officer the Standard Termination Entitlements.

Section 6. Discharge without Cause.

The Bank or the Company may discharge the Officer without Cause at any time after the occurrence of a Change of Control or a Pending Change of Control, and in such event:

(a) The Bank shall pay and deliver to the Officer (or in the event of the Officer’s death before payment, to the Officer’s estate and surviving dependents and beneficiaries, as applicable) the Standard Termination Entitlements.

(b) In addition to the Standard Termination Entitlements, in the event of a discharge of the Officer without Cause after the occurrence of a Change of Control or a Pending Change of Control and during the Term, the Bank shall pay to the Officer (or in the event of death before payment, to the Officer’s estate) an amount equal to 12 months base salary, which will be paid in a lump sum on the sixtieth (60th) day after termination of employment if the requirements of section 8(b) are met. In the event that such discharge occurs later than one year after the Change of Control, no additional amounts will be paid.

(c) The payment described in section 6(b) is referred to in this Agreement as the “Additional Termination Entitlements”.

Section 7. Resignation.

(a) The Officer may resign from his or her employment with the Bank at any time. A resignation under this section 7 shall be effected by notice of resignation given by the Officer to the Bank and shall take effect on the later of the effective date of termination specified in such notice or the date on which the notice of termination is deemed given to the Bank. The Officer’s resignation of any of the positions within the Bank or the Company to which he or she has been assigned shall be deemed a resignation from all such positions.

(b) With respect to termination of the Officer’s employment, “Good Reason” shall be considered to exist upon the occurrence of any of the following events without the Officer’s consent:

- (i) the assignment to duties materially inconsistent with the Officer's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect immediately prior to the Change of Control;
- (ii) a material diminution in the authorities, duties or responsibilities of the person to whom the Officer is required to report;
- (iii) a material reduction in the Officer's annual base salary;
- (iv) the Company's or the Bank's requiring the Officer to be based at any office or location resulting in a material increase in the Officer's commute to and from the Officer's primary residence in or near Southfield, Michigan (for this purpose an increase in the Officer's commute by 50 miles or more shall be deemed material); or
- (v) any other action or inaction that constitutes a material breach by the Bank of this Agreement;

provided that, within ninety (90) days after the initial existence of such event, the Bank shall be given notice and an opportunity, of not less than thirty (30) days, to remedy in good faith the condition constituting such "Good Reason" as asserted by the Officer. The Officer's employment shall continue in effect during such time so long as the Bank or the Company make diligent efforts during such time to cure the asserted Good Reason event or condition. In the event that the Bank or the Company shall remedy in good faith the event or condition constituting Good Reason, then the Officer's notice of termination for Good Reason shall be null and void, and, as a result of such event, the Officer shall not be entitled to resign with Good Reason. The Bank's or the Company's remedy of any Good Reason event or condition with or without notice from the Officer shall not relieve the Bank from any obligations to the Officer under this Agreement or otherwise and shall not affect the Officer's rights upon the reoccurrence of the same, or the occurrence of any other, Good Reason event or condition. The Officer's resignation hereunder for Good Reason shall not occur later than one hundred fifty (150) days following the initial date on which the event the Officer claims constitutes Good Reason occurred.

In all other cases, a resignation by the Officer shall be deemed to be without Good Reason. In the event of resignation, the Officer shall state in his or her notice of resignation whether he or she considers his or her resignation to be a resignation with Good Reason, and if he or she does, he or she shall state in such notice the grounds which constitute Good Reason. The Officer's determination of the existence of Good Reason shall be conclusive in the absence of fraud, bad faith or manifest error.

(c) In the event of the Officer's resignation for any reason, the Bank shall pay and deliver the Standard Termination Entitlements. In the event of the Officer's resignation with Good Reason after the occurrence of a Change of Control or a Pending Change of Control and

during the Term, the Bank shall also pay and deliver the Additional Termination Entitlements. In the event that such discharge occurs later than one year after the Change of Control, no Additional Termination Entitlements will be paid.

Section 8. Terms and Conditions of the Additional Termination Entitlements.

(a) The Bank and the Officer hereby stipulate that the damages which may be incurred by the Officer following any termination of employment are not capable of accurate measurement as of the date first above written and that the Additional Termination Entitlements constitute reasonable damages under the circumstances and shall be payable without any requirement of proof of actual damage and without regard to the Officer's efforts, if any, to mitigate damages.

(b) The Bank and the Officer further agree that the Bank may condition the payment and delivery of the Additional Termination Entitlements on the receipt of: (i) the Officer's resignation from any and all positions which the Officer holds as an officer, director or committee member with respect to the Bank or the Company or any subsidiary or affiliate of either of them; and (ii) a release of the Bank, the Company and their officers, directors, shareholders, subsidiaries and affiliates, in form and substance satisfactory to the Bank, of any liability to the Officer, whether for compensation or damages, in connection with his or her employment with the Bank or the Company and the termination of such employment except for the Standard Termination Entitlements and the Additional Termination Entitlements, that becomes effective on its terms, if at all, no later than the sixtieth (60th) day immediately following the Officer's termination of employment.

Section 9. Post-Termination Obligations.

The Officer shall, upon reasonable notice, furnish such information and assistance to the Bank as may reasonably be required by the Bank in connection with any litigation to which it or any of its affiliates is, or may become, a party, other than any litigation between the Officer and the Bank or its affiliates. The Bank shall reimburse the Officer for reasonable costs incurred by the Officer in providing such information and assistance.

Section 10. Non-Disparagement; Non-Disclosure and Non-Compete.

(a) The Officer shall not make any statements that disparage the Company, the Bank, or any subsidiary of such entities or the business practices of the Company, the Bank, or any subsidiary of such entities, except to the extent required (i) by law or by a court or other governmental agency of competent jurisdiction, or (ii) to exercise any legally protected whistleblower rights (including pursuant to Rule 21F under the Exchange Act.) The Company and the Bank shall not knowingly or intentionally make any statements that disparage the Officer, and the Company and the Bank shall each instruct its directors and officers not to make any statements that disparage the Officer. The provisions of this Section 10(a) shall survive the expiration of this Agreement.

(b) The Officer acknowledges that during his or her employment he or she will learn and have access to confidential information regarding the Company and the Bank and its customers and businesses (“Confidential Information”). The Officer agrees and covenants not to disclose or use for the Officer’s own benefit, or the benefit of any other person or entity, any such Confidential Information, unless or until the Company or the Bank consents to such disclosure or use, or such information becomes common knowledge in the industry or is otherwise legally in the public domain. The Officer shall not knowingly disclose or reveal to any unauthorized person any Confidential Information relating to the Company, the Bank, or any subsidiaries or affiliates, or to any of the businesses operated by them, and the Officer confirms that such information constitutes the exclusive property of the Company and the Bank. The Officer shall not otherwise knowingly act or conduct himself or herself (1) to the material detriment of the Company or the Bank, or its subsidiaries, or affiliates, or (2) in a manner which is inimical or contrary to the interests of the Company or the Bank. Notwithstanding the foregoing, it shall not be a breach of this Section 10(b) for the Officer to disclose Confidential Information to the extent that disclosure is (A) requested by the Bank or its affiliates or (B) required by a court or other governmental agency of competent jurisdiction. The provisions of this Section 10(b) shall survive the expiration of this Agreement. Notwithstanding anything herein to the contrary, the Officer is hereby notified, in accordance with the Defend Trade Secrets Act of 2016, that the Officer will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. The Officer is further notified that if he or she files a lawsuit for retaliation by the Bank or the Company for reporting a suspected violation of law, the Officer may disclose the Bank’s or the Company’s trade secrets to his or her attorney and use the trade secret information in the court proceeding if the Officer (a) files any document containing the trade secret under seal; and (b) does not disclose the trade secret, except pursuant to court order. Further, notwithstanding anything in this Agreement to the contrary, nothing contained herein prohibits the Officer from reporting, without the prior authorization of the Bank and the Company and without notifying the Bank and the Company, possible violations of federal law or regulation to the United States Securities and Exchange Commission, the United States Department of Justice, the United States Congress or other governmental agency having apparent supervisory authority over the business of the Employer, or making other disclosures that are protected under the whistleblower provisions of Federal law or regulation.

(c) For a period of one (1) year following Officer’s termination of employment for any reason other than death, Officer agrees to the application of, and to abide by, the non- competition and non-solicitation restrictions and covenants set forth in this Section 10(b). Notwithstanding the foregoing, no such non-competition and non-solicitation restrictions shall apply in the event of a termination of employment upon or following a Change of Control.

(i) Officer will not contact (with a view toward selling any product or service competitive with any product or service sold or proposed

to be sold by the Company, the Bank, or any subsidiary of such entities) any person, firm, association or corporation (1) to which the Company, the Bank, or any subsidiary of such entities sold any product or service during the thirty-six (36) month period immediately prior to Officer's termination of employment, or (2) which Officer was otherwise aware was a client of the Company, the Bank, or any subsidiary of such entities at the time of termination of employment. Officer will not directly or indirectly make any such contact, either for his or her own benefit or for the benefit of any other person, firm, association, or corporation.

(ii) Officer shall not engage in providing professional services or enter into employment as an employee, director, consultant, representative or similar relationship to any financial services enterprise (including a savings and loan association, bank, credit union or insurance company) that is primarily engaged in the business of offering retail customer and commercial deposit and/or loan products in the States of Michigan or California and is materially competitive with the Company, the Bank or their subsidiaries in the States of Michigan or California.

(iii) Officer hereby agrees that he or she shall not, on his or her own behalf or on behalf of others, employ, solicit, or induce, or attempt to employ, solicit or induce, any employee of the Company, the Bank, or any subsidiary of such entities for employment with any enterprise, nor will the Officer directly or indirectly, on his or her behalf or for others, seek to influence any employee of the Company, the Bank, or any subsidiary of such entities to leave the employ of the Company, the Bank, or any subsidiary of such entities.

(d) For purposes of this Section 10, the parties agree to exclusive jurisdiction in the federal and state courts of Michigan. Subject to the final sentence of this Section 10(d), the parties hereto, recognizing that irreparable injury will result to the Bank, the Company or their affiliates, its business and property in the event of the Officer's breach of any provision of this Section 10, agree that in the event of any such breach by the Officer, the Bank or its affiliates will be entitled, in addition to any other remedies and damages available, to an injunction issued by any court of competent jurisdiction located in Michigan to restrain the violation or attempted violation hereof by the Officer, the Officer's partners, agents, servants, employees and all persons acting for or under the direction of the Officer. Nothing herein will be construed as prohibiting the Bank or its affiliates from pursuing any other remedies available to the Bank or its affiliates for such breach or threatened breach, including the recovery of damages from the Officer.

Section 11. No Effect on Employee Benefit Plans or Programs.

The termination of the Officer's employment during the Term or thereafter, whether by the Bank or the Company or by the Officer, shall have no effect on the rights and

obligations of the parties hereto under the Bank's qualified or non-qualified retirement, pension, savings, thrift, profit-sharing or stock bonus plans, group life, health (including hospitalization, medical and major medical), dental, accident and long term disability insurance plans or such other employee benefit plans or programs, or compensation plans or programs, as may be maintained by, or cover employees of, the Bank or the Company from time to time; *provided, however*, that nothing in this Agreement shall be deemed to duplicate any compensation or benefits provided under any agreement, plan or program covering the Officer to which the Bank or Company is a party, and any duplicative amount payable under any such agreement, plan or program shall be applied as an offset to reduce the amounts otherwise payable hereunder. The Officer understands and acknowledges that he or she will not be entitled to receive payments under the Sterling Bank & Trust, FSB Severance Benefits Plan.

Section 12. Successors and Assigns.

This Agreement will inure to the benefit of and be binding upon the Officer, his or her legal representatives and testate or intestate distributees, and the Bank and its respective successors and assigns, including any successor by merger or consolidation or a statutory receiver or any other person or firm or corporation to which all or substantially all of the assets and business of the Bank may be sold or otherwise transferred. Failure of the Bank to obtain from any successor its express written assumption of the Bank's obligations hereunder at least 60 days in advance of the scheduled effective date of any such succession shall, if such succession constitutes a Change of Control, constitute Good Reason for the Officer's resignation on or at any time during the Term following the occurrence of such succession.

Section 13. Notices.

Any communication required or permitted to be given under this Agreement, including any notice, direction, designation, consent, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally, or five days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below or at such other address as one such party may by written notice specify to the other party:

If to the Officer:

Eleni Willis

If to the Bank:

Sterling Bank and Trust, F.S.B.
Attn: General Counsel
One Towne Square Suite 1900

Southfield, Michigan 48076

with a copy to:

Arnold & Porter Kaye Scholer LLP
250 West 55th Street
New York, New York 10019
Attention: Robert C. Azarow, Esq.

Section 14. Severability.

A determination that any provision of this Agreement is invalid or unenforceable shall not affect the validity or enforceability of any other provision hereof.

Section 15. Waiver.

Failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such term, covenant, or condition. A waiver of any provision of this Agreement must be made in writing, designated as a waiver, and signed by the party against whom its enforcement is sought. Any waiver or relinquishment of any right or power hereunder at any one or more times shall not be deemed a waiver or relinquishment of such right or power at any other time or times.

Section 16. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

Section 17. Governing Law.

Except to the extent preempted by federal law, this Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Michigan applicable to contracts entered into and to be performed entirely within the State of Michigan.

Section 18. Headings and Construction.

The headings of sections in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section. Any reference to a section number shall refer to a section of this Agreement, unless otherwise stated.

Section 19. Entire Agreement; Modifications.

This instrument contains the entire agreement of the parties relating to the subject matter hereof, and supersedes in its entirety any and all prior agreements, understandings or representations relating to the subject matter hereof. No modifications of this Agreement shall be

valid unless made in writing and signed by the parties hereto; *provided, however*, that this Agreement shall be subject to amendment in the future in such manner as the Bank shall reasonably deem necessary or appropriate to effect compliance with section 409A of the Code and the regulations thereunder (“Section 409A”) and to avoid the imposition of penalties and additional taxes under Section 409A, it being the express intent of the parties that any such amendment shall not diminish the economic benefit of the Agreement to the Officer on a present value basis.

Section 20. Required Regulatory Provisions.

The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to the Company or the Bank:

(a) Notwithstanding anything herein contained to the contrary, any payments to the Officer by the Company or the Bank, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1828(k), and any regulations promulgated thereunder.

(b) Notwithstanding anything herein contained to the contrary, if the Officer is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Bank pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the FDI Act, 12 U.S.C. § 1818(e)(3) or 1818(g)(1), the Bank’s obligations under this Agreement shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Bank, in its discretion, may (i) pay to the Officer all or part of the compensation withheld while the Bank’s obligations hereunder were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(c) Notwithstanding anything herein contained to the contrary, if the Officer is removed and/or permanently prohibited from participating in the conduct of the Bank’s affairs by an order issued under section 8(e)(4) or 8(g)(1) of the FDI Act, 12 U.S.C. § 1818(e)(4) or (g)(1), all prospective obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights and obligations of the Bank and the Officer shall not be affected.

(d) Notwithstanding anything herein contained to the contrary, any payments to the Officer by the Company or the Bank, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon, to the extent required by law, the prior approval of the “appropriate federal banking agency,” as that term is defined under section 3 of the FDI Act, 12 U.S.C. § 1813(q), in accordance with the FDIC regulation 12 C.F.R. Part 359, Golden Parachute and Indemnification Payments.

The vested rights and obligations of the parties shall not be affected. If and to the extent that any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative as though eliminated by formal amendment of this Agreement.

Section 21. Income Tax Withholding

All payments required to be made by the Bank hereunder to the Officer shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Bank may reasonably determine should be withheld pursuant to any applicable law or regulation.

Section 22. Section 409A of the Internal Revenue Code.

The Officer and the Bank acknowledge that each of the payments and benefits promised to the Officer under this Agreement must either comply with the requirements of Section 409A or qualify for an exception from compliance. To that end, the Officer and the Bank agree that:

(a) the payment described in section 2(a) is intended to be excepted from compliance with Section 409A pursuant to Treasury Regulation § 1.409A-1(b)(3) as payment made pursuant to the Bank's and the Bank's customary payment timing arrangement; and

(b) the benefits and payments described in section 2(b) are expected to comply with or be excepted from compliance with Section 409A on their own terms.

In the case of a payment that is not excepted from compliance with Section 409A, and that is not otherwise designated to be paid immediately upon a permissible payment event within the meaning of Treasury Regulation § 1.409A-3(a), the payment shall not be made prior to, and shall, if necessary, be deferred to and paid on the later of (i) the day five (5) days after the Officer's earliest separation from service (within the meaning of Treasury Regulation § 1.409A-1(h)) and, (ii) if the Officer is a specified employee (within the meaning of Treasury Regulation § 1.409A-1(i)) on the date of his or her separation from service, the earlier of the first day of the seventh month following the Officer's separation from service and the Officer's death. Each payment or benefit under this Agreement shall be treated as a separate payment or benefit for purposes of Section 409A. Furthermore, this Agreement shall be construed and administered in such manner as shall be necessary to effect compliance with Section 409A.

Section 23. No Excess Parachute Payments.

Notwithstanding anything to the contrary in this Agreement, if any payment of compensation to or for the benefit of the Officer, whether or not made under the terms of this Agreement, either alone or together with any other payments and benefits which the Officer has received or has a right to receive, would be subject to the excise tax imposed by section 4999 of the Code, such payments and/or benefits shall be reduced by the amount, if any, which is the minimum necessary to result in no portion of such payments or benefits being subject to the excise tax imposed under section 4999 of the Code. The amount of any required reduction shall be determined and applied in a manner calculated to maximize the after-tax value of the remaining payments and benefits. All calculations required to be made in order to determine whether

payments would be subject to the excise tax imposed under section 4999 of the Code, including the assumptions to be utilized in arriving at such determination and the amount and application of any required reduction, shall be made by independent counsel retained by the Bank for this purpose prior to the event or the closing of the transaction which results in the application of section 4999 of the Code or such other independent counsel or independent firm of certified public accountants as the Bank may designate with the consent of the Officer (which consent shall not be unreasonably withheld or delayed) (the "Tax Advisor"), which shall provide detailed supporting calculations both to the Bank and the Officer within fifteen (15) business days of the receipt of demand from the Officer, or such earlier time as is requested by the Bank. All fees and expenses of the Tax Advisor shall be borne solely by the Bank. Any determination by the Tax Advisor shall be binding upon the Bank and the Officer and all other interested parties in the absence of manifest error.

Section 24. Recoupment of Payments.

All payments and obligations under this Agreement shall be subject to the terms and conditions, if applicable, of any recoupment policy adopted by the Bank or the Company from time to time or any recoupment requirement imposed under applicable laws, rules or regulations, including but not limited to the Sterling Bancorp, Inc. Clawback Policy. In addition, the Officer covenants and agrees that the Company and the Bank and their successors and assigns shall have the right to demand the return of any "golden parachute payments" (as defined in FDIC regulation 12 C.F.R. Part 359) in the event that any of them obtain information indicating that the Officer committed, is substantially responsible for, or has violated, the respective acts or omissions, conditions, or offenses contained in FDIC regulation 12 C.F.R. § 359.4(a)(4), and the Officer shall promptly return any such "golden parachute payment" upon such demand.

[Signature Page Follows]

IN WITNESS WHEREOF, the Bank has caused this Agreement to be executed and the Officer has hereunto set his or her hand, all as of the day and year first above written.

/s/ Eleni Willis

Name: Eleni Willis

STERLING BANK AND TRUST, F.S.B.

By/s/ Thomas M. O'Brien

Name: Thomas M. O'Brien

Title: President and Chief Executive Officer

**Certification of Chief Executive Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Thomas M. O'Brien, certify that:

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

Date: November 7, 2024

/s/ THOMAS M. O'BRIEN

Thomas M. O'Brien

Chief Executive Officer

(principal executive officer)

**Certification of Chief Financial Officer Pursuant to
Rule 13a-14(a) of the Securities Exchange Act of 1934, as Amended,
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Karen Knott, certify that:

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

Date: November 7, 2024

/s/ KAREN KNOTT

Karen Knott
Chief Financial Officer
(principal financial officer)

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended September 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

/s/ THOMAS M. O'BRIEN

Thomas M. O'Brien

Chief Executive Officer

(principal executive officer)

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Quarterly Report on Form 10-Q of Sterling Bancorp, Inc. (the “Company”) for the quarter ended September 30, 2024 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

/s/ KAREN KNOTT

Karen Knott

Chief Financial Officer

(principal financial officer)
