



NORTHEAST
COMMUNITY BANCORP, INC.

**NOTICE OF 2018 ANNUAL MEETING,
PROXY STATEMENT AND
2017 ANNUAL REPORT**

NORTHEAST COMMUNITY BANCORP, INC.

Corporate Profile

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

Transfer Agent

Computershare

P.O. Box 505000

Louisville, KY, 40233-5000

1-800-368-5948

www.computershare.com/investor

Stock Listing

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

Locations

Corporate Headquarters and Main Office Annex

325 Hamilton Avenue
White Plains, New York 10601

55 Church Street
White Plains, New York 10601

Bank Branches

325 Hamilton Avenue
White Plains, New York 10601

1355 First Avenue
New York, New York 10021

590 East 187th Street
Bronx, New York 10458

72 West Eckerson Road
Spring Valley, New York 10977

242 West 23rd Street
New York, New York 10011

87 Elm Street
Danvers, Massachusetts 01923

281 Quincy Avenue
Quincy, Massachusetts 02169

35 Edgell Road
Framingham, Massachusetts 01017

Loan Production Office

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

Other Properties

830 Post Road East
Westport, Connecticut 06880



April 9, 2018

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of NorthEast Community Bancorp, Inc. The meeting will be held at the Renaissance Westchester Hotel, 80 W. Red Oak Lane, West Harrison, New York on Wednesday, May 16, 2018 at 9:00 a.m., local time.

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

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

We look forward to seeing you at the meeting.

Sincerely,

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

Kenneth A. Martinek
Chairman and Chief Executive Officer

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

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

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

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NORTHEAST
COMMUNITY BANCORP, INC.

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

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

- TIME AND DATE** 9:00 a.m. on Wednesday, May 16, 2018
- PLACE** Renaissance Westchester Hotel
80 W. Red Oak Lane
West Harrison, New York 10604
- ITEMS OF BUSINESS** (1) To elect three directors to serve for a term of three years;
- (2) To ratify the appointment of BDO USA, LLP as our independent auditors for fiscal year 2018; and
- (3) To transact other business as may properly come before the meeting and any adjournment or postponement thereof.
- RECORD DATE** In order to vote, you must have been a stockholder at the close of business on March 23, 2018.
- PROXY VOTING** It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you. Voting instructions are printed on your proxy card or voting instruction card. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the proxy statement.

Anne Stevenson-DeBlasi
Corporate Secretary
April 9, 2018

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

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NORTHEAST COMMUNITY BANCORP, INC.

PROXY STATEMENT

GENERAL INFORMATION

We are providing this proxy statement to you in connection with the solicitation of proxies by the Board of Directors of NorthEast Community Bancorp, Inc. for the 2018 annual meeting of stockholders and for any adjournment or postponement of the meeting. NorthEast Community Bancorp is the holding company for NorthEast Community Bank.

We are holding the 2018 annual meeting at the Renaissance Westchester Hotel, 80 W. Red Oak Lane, West Harrison, New York on Wednesday, May 16, 2018 at 9:00 a.m., local time.

We intend to mail this proxy statement and the enclosed proxy card to stockholders of record beginning on or about April 9, 2018.

INFORMATION ABOUT VOTING

Who Can Vote at the Meeting

You are entitled to vote the shares of NorthEast Community Bancorp common stock that you owned as of the close of business on March 23, 2018. As of the close of business on March 23, 2018, a total of 12,194,611 shares of NorthEast Community Bancorp common stock were outstanding, including 7,273,750 shares of common stock held by NorthEast Community Bancorp, MHC (the "MHC"). Each share of common stock has one vote.

Ownership of Shares; Attending the Meeting

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

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

If your shares are registered directly in your name at our transfer agent, Computershare Trust Company, N.A., you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us or to vote in person at the annual meeting. **If you plan to attend the annual meeting you must bring photo identification to be admitted to the meeting.**

If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the voting instruction form provided by your broker, bank or other holder of record that accompanies this proxy statement. **If you hold your shares in street name, you will need photo identification and proof of ownership to be admitted to the annual meeting.**

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

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

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

Quorum and Votes Required

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

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

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

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

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

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

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

Voting by Proxy

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

The Board of Directors recommends that you vote:

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

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

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

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

If you participate in the NorthEast Community Bank Employee Stock Ownership Plan (the “ESOP”), or if you hold Company common stock through the NorthEast Community Bank 401(k) Plan (the “401(k) Plan”), you will receive a voting instruction card for each plan in which you participate that reflects all shares that you may direct the trustee to vote on your behalf under such plan. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary duties, will vote all unallocated shares of Company common stock held by the ESOP and all allocated shares for which no voting instructions are received in the same proportion as shares for which the trustee has received timely voting instructions. Under the terms of the 401(k) Plan, a participant is entitled to direct the trustee how to vote the shares in the NorthEast Community Bancorp, Inc. Stock Fund credited to his or her account. If the 401(k) Plan trustee does not receive timely voting instructions for the shares of Company common stock held in the 401(k) Plan, the shares will not be voted. **The deadline for returning your voting instructions to each plan's trustee is May 9, 2018.**

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

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

The Board’s Role in Risk Oversight

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

Committees of the Board of Directors

The following table identifies the members of our Audit, Compensation, and Nominating/Corporate Governance Committees as of March 23, 2018. Each of the committees operates under a written charter that is approved by the Board of Directors. Each committee reviews and reassesses the adequacy of its charter at least annually. The charters of all three committees are available in the Investor Relations section of the Company’s website, *www.necb.com*.

<u>Director</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating/ Corporate Governance Committee</u>
Diane B. Cavanaugh		X*	X
Arthur M. Levine	X*	X	
Eugene M. Magier.....			X
John F. McKenzie	X	X	
Kevin P. O’Malley	X		
Kenneth H. Thomas			X*
<u>Number of Meetings in 2017</u>	5	1	1

* Denotes Chairperson

Audit Committee

The Audit Committee assists the Board of Directors in its oversight of the Company’s accounting and reporting practices, the quality and integrity of the Company’s financial reports and the Company’s compliance with applicable laws and regulations. The Audit Committee is also responsible for engaging

the Company's independent auditors and monitoring its conduct and independence. The Board of Directors has determined that Arthur M. Levine is an audit committee financial expert as defined under the rules of the Securities and Exchange Commission.

Compensation Committee

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

Nominating/Corporate Governance Committee

The Company's Nominating/Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines. The Nominating/Corporate Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of stockholders. Further, when identifying nominees to serve as director, the Nominating/Corporate Governance Committee seeks to create a Board that is strong in its collective knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge and corporate governance. The procedures of the Nominating/Corporate Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are set forth below.

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

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

- financial, regulatory and business experience and skills;
- familiarity with and participation in the local community;

- integrity, honesty and reputation in connection with upholding a position of trust with respect to customers;
- ability to devote sufficient time and energy to diligently perform duties; and
- independence.

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

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

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

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

Evaluation. In evaluating potential nominees, the Nominating/Corporate Governance Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under the selection criteria described above. If such individual fulfills these criteria, the Nominating/Corporate Governance Committee will conduct a check of the individual's background and interview the candidate to further assess the qualities of the prospective nominee and the contributions he or she would make to the Board.

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

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

1. The name of the person recommended as a director candidate;

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

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

Director Compensation

Each non-employee director of the Bank receives a \$4,125 quarterly retainer plus \$1,375 per meeting attended. Non-employee directors also receive a \$750 quarterly retainer plus \$750 per meeting attended for their service on the Board of Directors of the Company, \$500 per meeting attended for service on the Audit, Compensation, and Nominating/Corporate Governance Committees of the Board of the Company, and \$1,000 per meeting attended for service on the Strategic Planning Committee. In addition, the Chairperson of the Audit Committee receives a \$3,000 quarterly retainer and the Chairpersons of the Compensation and Nominating/Corporate Governance Committee each receive a \$1,250 quarterly retainer. Directors do not receive any fees for their service on the Board of Directors of NorthEast Community Bancorp, MHC.

Board and Committee Meetings

During 2017, the Board of Directors of the Company and the Bank held 14 meetings. Each of our current directors attended at least 95% of the Board meetings and the committee meetings on which such director served during 2017.

Director Attendance at Annual Meeting of Stockholders

The Board of Directors encourages each director to attend annual meetings of stockholders. Eight of the Company's nine directors attended the 2017 annual meeting of stockholders.

Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct that is designed to promote the highest standards of ethical conduct by the Company's directors, executive officers and employees. The Code of Ethics and Business Conduct requires that the Company's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's best interest.

Under the terms of the Code of Ethics and Business Conduct, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics and Business Conduct. A copy of the Code of Ethics and Business Conduct can be found in the Investor Relations section of the Company's website, *www.necb.com*.

REPORT OF THE AUDIT COMMITTEE

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

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

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

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

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, the audited consolidated financial statements for the year ended December 31, 2017.

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

Arthur M. Levine (Chairperson)
John F. McKenzie
Kevin P. O'Malley

STOCK OWNERSHIP

The following table provides information as of March 23, 2018, with respect to persons known by the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investing power.

<u>Name and Address</u>	<u>Number of Shares Owned</u>	<u>Percent of Common Stock Outstanding (1)</u>
NorthEast Community Bancorp, MHC ⁽²⁾ 325 Hamilton Avenue White Plains, New York 10601	7,273,750	59.65%
Stilwell Value Partners IV, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Partners, L.P., Stilwell Value LLC, and Joseph Stilwell..... 111 Broadway, 12 th Floor New York, New York 10006	1,236,102 ⁽³⁾	10.14%

- (1) Based on 12,194,611 shares of the Company's common stock outstanding and entitled to vote as of March 23, 2018.
- (2) The members of the Board of Directors of NorthEast Community Bancorp and NorthEast Community Bank also constitute the Board of Directors of NorthEast Community Bancorp, MHC.
- (3) Based on information contained in a Schedule 13D/A filed with the Securities and Exchange Commission on April 17, 2014, which indicates that Stilwell Value Partners IV, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Partners, L.P., Stilwell Value LLC, and Joseph Stilwell have shared voting and dispositive power over 1,236,102 shares. This is the most recent information that is publicly available and the amount held by this shareholder as of March 23, 2018 may be more or less than the amount stated above.

The following table provides information as of March 23, 2018 about the shares of Company common stock that may be considered to be beneficially owned by each director, nominee for director, executive officers named in the *Summary Compensation Table* and by all directors, nominees for director and executive officers of the Company as a group. A person may be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the shares shown. All directors and executive officers as a group own 1.13% of the Company's outstanding shares based on 12,194,611 shares of the Company's common stock outstanding and entitled to vote as of March 23, 2018.

<u>Name</u>	<u>Number of Shares Owned (1)(2)</u>
Diane B. Cavanaugh	500
Jose M. Collazo	21,222
Donald Hom	6,910
Arthur M. Levine.....	2,076 ⁽³⁾
Eugene M. Magier	9,000 ⁽⁴⁾
Charles A. Martinek.....	11,807
Kenneth A. Martinek	68,820
John F. McKenzie.....	5,000
Kevin P. O'Malley.....	2,020
Kenneth H. Thomas	10,000 ⁽⁵⁾
All Executive Officers, Directors and Director Nominees, as a Group (10 persons).....	137,355

- (1) Includes shares allocated to the account of individuals under the Bank's ESOP with respect to which individuals have voting but not investment power as follows: Mr. Charles Martinek – 7,495 shares, Mr. Kenneth Martinek – 22,930 shares (including 3,959 shares allocated to Mr. Martinek's spouse), Mr. Collazo – 14,736 shares (including 4,006 shares allocated to Mr. Collazo's spouse) and Mr. Hom – 6,910 shares.
- (2) Includes shares held in trust in the 401(k) Plan as to which each individual has investment and voting power as follows: Mr. Charles Martinek – 4,241 shares, Mr. Kenneth Martinek – 45,890 shares, Mr. Collazo – 2,240 shares and Mr. Collazo's spouse – 4,134. These amounts reflect ownership units in the employer stock fund of the 401(k) Plan, which consists of both issuer stock and a reserve of cash. The actual number of shares held by the individual may vary when such units are actually converted into shares upon distribution of the units to the individual.
- (3) Includes 1,000 shares held by Mr. Levine's spouse as trustee.
- (4) Includes 1,900 shares held by Mr. Magier's spouse's IRA.
- (5) Includes 370 shares held by Mr. Thomas' spouse's IRA.

ITEMS TO BE VOTED ON BY STOCKHOLDERS

Item 1 — Election of Directors

The Board of Directors of NorthEast Community Bancorp is presently composed of nine members. The Board is divided into three classes, each with three-year staggered terms, with approximately one-third of the directors elected each year. The nominees for election this year are Diane B. Cavanaugh, Charles A. Martinek and Kenneth H. Thomas, all of whom are current directors of the Company and the Bank.

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

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

Information regarding the Board of Director’s nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated for each individual is as of December 31, 2017 and the indicated period of service as a director includes service as a director of the Bank. Based on their respective experiences, qualifications, attributes and skills set forth below, the Board of Directors determined that each current director and nominee should serve as a director.

Board Nominees for Terms Ending in 2021

Diane B. Cavanaugh is an attorney with Lyons McGovern, LLP. Age 61. Director since 1992.

As an attorney specializing in commercial litigation, Ms. Cavanaugh has the ability to provide the Board with the legal knowledge necessary to assess issues facing the Board effectively.

Charles A. Martinek has served as Vice President and Chief Compliance Officer of NorthEast Community Bank since September, 2013. Prior to that time, Mr. Martinek served as Internal Loan Review and Community Reinvestment Officer of the Bank since May, 2007, commercial loan officer with the Bank since 2001, and as an assistant vice president since 2002. Before serving with the Bank, Mr. Martinek was a quality control analyst with C. Cowles & Co. Mr. Martinek is also the owner of Martinek Investment Properties, LLC. Mr. Martinek’s brother, Kenneth Martinek, also serves on the Board of Directors. Age 56. Director since 2002.

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

Kenneth H. Thomas has been an independent bank analyst and consultant since 1969 and has been President of K.H. Thomas Associates, LLC since 1975. Mr. Thomas is also a registered investment advisor and President of Community Development Advisors, LLC. Dr. Thomas holds a Ph.D. in Finance from the Wharton School and has written extensively on the Community Reinvestment Act of 1977. He has been a consultant to the Bank since 1978. Age 70. Director since 2001.

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

Directors With Terms Ending in 2019

Arthur M. Levine is a certified public accountant and Managing Member of the accounting firm A.L. Wellen LLC. Age 83. Director since 1995.

Mr. Levine’s accounting and business experience for over 50 years provides the Board with valuable insight and expertise with regard to various financial and accounting matters affecting the Company.

Eugene M. Magier is an attorney and has been President of the Law Offices of Eugene M. Magier, P.C. since 1994. Mr. Magier is a licensed Massachusetts Real Estate Broker and has managed

residential and commercial real estate. Prior to starting his own law firm, Mr. Magier served as Legal Counsel for CVS Corporation. Age 56. Director since 2012.

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

Kenneth A. Martinek has served as Chairman of the Board and Chief Executive Officer of NorthEast Community Bancorp since its formation in 2006 and previously served as President from 2006 until January 2013. He has served with NorthEast Community Bank since 1976 and has been the Chief Executive Officer of the Bank since 1991 and was the President from 1991 until January 2013. Mr. Martinek was first elected as a director of the Bank in 1983 and was appointed Chairman of the Board in 2002. Mr. Martinek's brother, Charles A. Martinek, also serves on the Board of Directors. Age 65.

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

John F. McKenzie is a retired insurance executive. Prior to his retirement in early 2008, Mr. McKenzie was the owner of an insurance agency in Orange, Connecticut, providing multiline personal and commercial insurance products. Age 74. Director since November 2006.

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

Directors With Terms Ending in 2020

Jose M. Collazo has served as President of the Company and the Bank since January 2013 and Chief Operating Officer of the Company and the Bank since February 2012. Prior to being appointed Chief Operating Officer Mr. Collazo served as Senior Vice President and Chief Information Officer from 2002 to February 2012. Mr. Collazo joined the Bank in January 1986. Age 52. Director since 2013.

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

Kevin P. O'Malley is an attorney and is president of the Kevin P. O'Malley, P.C., a law firm located in Tappan, New York. Age 72. Director since 2016.

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

Item 2 — Ratification of the Independent Auditors

The Audit Committee of the Board of Directors has appointed BDO USA, LLP to be the Company's independent auditors for 2018, subject to ratification by shareholders. A representative of BDO USA, LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

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

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

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

In addition, the Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by the independent auditor. Requests for services by the independent auditor must be specific as to the particular services to be provided. The request may be made with respect to either specific services or a type of service for predictable or recurring services. During the year ended December 31, 2017, all services provided by the independent auditor were approved, in advance, by the Audit Committee in compliance with these procedures.

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

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides information concerning total compensation earned or paid to the Chief Executive Officer and the two other most highly compensated executive officers of the Company who served in such capacities at December 31, 2017. These three officers are referred to as the “named executive officers” in this proxy statement.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>All Other Compensation(1)</u>	<u>Total</u>
Kenneth A. Martinek Chief Executive Officer	2017	\$352,556	\$60,000	\$13,203	\$425,759
	2016	317,303	—	11,939	329,242
Jose M. Collazo President and Chief Operating Officer	2017	275,572	40,000	13,119	328,691
	2016	200,403	—	9,019	209,422
Donald S. Hom Executive Vice President and Chief Financial Officer	2017	212,400	20,000	10,308	242,708
	2016	177,400	—	7,978	185,378

(1) Represents the value of employee stock ownership plan shares awarded during the years ended December 31, 2017 and 2016.

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

The employment agreements with Messrs. Martinek and Collazo provide for three-year terms, subject to annual renewal by the Boards of Directors. In connection with a review of the executive officers’ job performance, the Board of Directors of the Bank and the Company approved the extension of the employment agreement with Mr. Martinek through July 5, 2021 and the extension of the employment agreement with Mr. Collazo through May 11, 2021. The agreements also provide for participation in employee benefit plans and programs maintained for the benefit of senior management personnel, including discretionary bonuses, participation in stock-based benefit plans, and fringe benefits.

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

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

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

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

Potential Post-Termination Benefits

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

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

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

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

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

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

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

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

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

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

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

OTHER INFORMATION RELATING TO DIRECTORS AND EXECUTIVE OFFICERS

Transactions with Related Persons

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

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

SUBMISSION OF BUSINESS PROPOSALS AND STOCKHOLDER NOMINATIONS

The Company must receive proposals that stockholders seek to include in the proxy statement for the Company's next annual meeting no later than December 10, 2018. If next year's annual meeting is held on a date more than 30 calendar days from May 16, 2019, a stockholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation for such annual meeting. Any stockholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

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

STOCKHOLDER COMMUNICATIONS

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

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on May 16, 2018.

The Proxy Statement and Annual Report to Stockholders are available at:
[https://www.necb.com/portals/NorthEastCommunityBank/PDF/2018 Meeting 2017 Proxy Annual Rpt.pdf](https://www.necb.com/portals/NorthEastCommunityBank/PDF/2018%20Meeting%202017%20Proxy%20Annual%20Rpt.pdf)

MISCELLANEOUS

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

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

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

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

BY ORDER OF THE BOARD OF DIRECTORS



Anne Stevenson-DeBlasi
Corporate Secretary

White Plains, New York
April 9, 2018

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Northeast Community Bancorp, Inc.

Consolidated Financial Report

December 31, 2017



Independent Auditor's Report

Board of Directors and Stockholders
Northeast Community Bancorp, Inc.

We have audited the accompanying consolidated financial statements of Northeast Community Bancorp, Inc. and subsidiary (collectively the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Community Bancorp, Inc. and subsidiary as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

New York, New York
April 6, 2018

Northeast Community Bancorp, Inc.

Consolidated Statements of Financial Condition

	December 31,	
	2017	2016
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and amounts due from depository institutions	\$ 11,565	\$ 8,109
Interest-bearing deposits	32,036	35,064
Cash and cash equivalents	43,601	43,173
Certificates of deposit	150	648
Securities available-for-sale	6,927	3,950
Securities held-to-maturity (fair value of \$7,101 and \$4,132, respectively)	7,036	4,055
Loans receivable, net of allowance for loan losses of \$3,506 and \$3,771 respectively	704,124	626,139
Premises and equipment, net	13,051	14,058
Investments in restricted stock, at cost	3,306	3,774
Bank owned life insurance	22,949	22,363
Accrued interest receivable	3,193	2,547
Goodwill	749	749
Other intangible assets	101	162
Real estate owned	2,491	6,272
Property held for investment	2,152	539
Other assets	4,991	6,075
Total assets	\$ 814,821	\$ 734,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 108,185	\$ 91,191
Interest bearing	517,026	454,155
Total deposits	625,211	545,346
Advance payments by borrowers for taxes and insurance	3,232	4,071
Federal Home Loan Bank advances	62,869	70,249
Accounts payable and accrued expenses	6,612	5,386
Total liabilities	697,924	625,052
Stockholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 19,000,000 shares authorized; 13,225,000 shares issued; outstanding: 12,194,611 and 12,215,830 shares, respectively	132	132
Additional paid-in capital	56,830	56,857
Unearned Employee Stock Ownership Plan ("ESOP") shares	(2,073)	(2,333)
Retained earnings	69,280	61,794
Treasury stock – at cost, 1,030,389 and 1,009,170 shares, respectively	(7,032)	(6,815)
Accumulated other comprehensive loss	(240)	(183)
Total stockholders' equity	116,897	109,452
Total liabilities and stockholders' equity	\$ 814,821	\$ 734,504

See notes to consolidated financial statements.

Northeast Community Bancorp, Inc.

Consolidated Statements of Income

	Years Ended December 31,	
	2017	2016
	(In thousands, except per share amounts)	
INTEREST INCOME:		
Loans	\$ 36,574	\$ 28,122
Interest-earning deposits	394	161
Securities – taxable	368	302
Total Interest Income	37,336	28,585
INTEREST EXPENSE:		
Deposits	5,693	4,547
Borrowings	832	833
Total Interest Expense	6,525	5,380
Net Interest Income	30,811	23,205
PROVISION FOR LOAN LOSSES	51	146
Net Interest Income after Provision for Loan Losses	30,760	23,059
NON-INTEREST INCOME:		
Other loan fees and service charges	959	748
Loss on disposition of equipment	(7)	(49)
Earnings on bank owned life insurance	586	626
Investment advisory fees	620	763
Other	57	38
Total Non-Interest Income	2,215	2,126
NON-INTEREST EXPENSES:		
Salaries and employee benefits	10,827	9,722
Occupancy expense	1,468	1,378
Equipment	639	674
Outside data processing	1,184	1,064
Advertising	61	118
Real estate owned expense	62	478
Other	4,207	3,606
Total Non-Interest Expenses	18,448	17,040
INCOME BEFORE PROVISION FOR INCOME TAXES	14,527	8,145
PROVISION FOR INCOME TAXES	6,477	3,118
NET INCOME	\$ 8,050	\$ 5,027
NET INCOME PER COMMON SHARE - BASIC AND DILUTED	\$ 0.67	\$ 0.42
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED	11,983	11,974
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.12	\$ 0.12

See notes to consolidated financial statements.

Northeast Community Bancorp, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Net Income	\$ 8,050	\$ 5,027
Other comprehensive income (loss):		
Unrealized loss on securities available-for-sale arising during the year	(17)	(79)
Defined benefit pension:		
Reclassification adjustments out of accumulated other comprehensive loss:		
Amortization of prior service cost (1)	21	21
Amortization of actuarial loss (gain) (1)	22	(13)
Actuarial loss arising during period	(121)	(229)
Total	(95)	(300)
Income tax effect (2)	38	121
Total other comprehensive loss	(57)	(179)
Total Comprehensive Income	<u>\$ 7,993</u>	<u>\$ 4,848</u>

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

(2) Amounts are included in provision for income taxes in the audited consolidated statements of operations.

See notes to consolidated financial statements.

Northeast Community Bancorp, Inc.

Consolidated Statements of Stockholders' Equity Years Ended December 31, 2017 and 2016

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2016	\$ 132	\$ 56,939	\$ (2,592)	\$ 57,329	\$ (6,757)	\$ (4)	\$ 105,047
			(In thousands, except share and per share amounts)				
Net income	-	-	-	5,027	-	-	5,027
Other comprehensive loss	-	-	-	-	-	(179)	(179)
Purchase of 7,972 shares of treasury stock	-	-	-	-	(58)	-	(58)
Cash dividend declared (\$0.12 per share)	-	-	-	(562)	-	-	(562)
ESOP shares earned	-	(82)	259	-	-	-	177
Balance - December 31, 2016	\$ 132	\$ 56,857	\$ (2,333)	\$ 61,794	\$ (6,815)	\$ (183)	\$ 109,452
Net income	-	-	-	8,050	-	-	8,050
Other comprehensive loss	-	-	-	-	-	(57)	(57)
Purchase of 21,219 shares of treasury stock	-	-	-	-	(217)	-	(217)
Cash dividend declared (\$0.12 per share)	-	-	-	(564)	-	-	(564)
ESOP shares earned	-	(27)	260	-	-	-	233
Balance - December 31, 2017	\$ 132	\$ 56,830	\$ (2,073)	\$ 69,280	\$ (7,032)	\$ (240)	\$ 116,897

Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows

	Years Ended	
	December 31,	
	2017	2016
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 8,050	\$ 5,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts, net	16	18
Provision for loan losses	51	146
Depreciation	752	698
Net accretion of deferred loan fees and costs	(1,529)	(240)
Amortization of intangible assets	61	61
Deferred income tax expense (benefit)	1,326	(156)
Loss on sales and write-downs of real estate owned	72	324
Earnings on bank owned life insurance	(586)	(626)
Loss on dispositions of premises and equipment	7	49
ESOP compensation expense	233	177
Increase in accrued interest receivable	(646)	(632)
Decrease (increase) in other assets	(204)	82
Increase in accounts payable and accrued expenses	1,147	504
Net Cash Provided by Operating Activities	8,750	5,432
Cash Flows from Investing Activities:		
Net increase in loans	(87,748)	(125,794)
Proceeds from sale of loan participations	25,052	7,360
Purchase of loans	(13,811)	-
Principal repayments on securities available-for-sale	6	6
Principal repayments on securities held-to-maturity	904	1,041
Purchase of securities available-for-sale	(3,000)	(4,000)
Purchase of securities held-to-maturity	(3,901)	-
Proceeds from sale of real estate owned	3,681	-
Net redemptions (purchases) of FHLB of NY stock	468	(647)
Net maturities of certificate of deposit	498	-
Purchases of premises and equipment	(1,337)	(3,192)
Net Cash Used in Investing Activities	(79,188)	(125,226)
Cash Flows from Financing Activities:		
Net increase in deposits	79,865	121,112
Proceeds from FHLB of NY advances	6,000	27,462
Repayment of FHLB of NY advances	(13,380)	(13,385)
Purchase of treasury stock	(217)	(58)
(Decrease) Increase in advance payments by borrowers for taxes and insurance	(839)	580
Cash dividends paid	(563)	(562)
Net Cash Provided by Financing Activities	70,866	135,149
Net Increase in Cash and Cash Equivalents	428	15,355
Cash and Cash Equivalents - Beginning	43,173	27,818
Cash and Cash Equivalents - Ending	\$ 43,601	\$ 43,173

See notes to consolidated financial statements.

Northeast Community Bancorp, Inc.

Consolidated Statements of Cash Flows (Continued)

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Supplementary Cash Flows Information:		
Income taxes paid	\$ 5,341	\$ 2,609
Interest paid	\$ 6,521	\$ 5,379
Supplementary Disclosure of Non-Cash Investing and Financing Activities:		
Fixed asset transferred to property held for investment	\$ 1,629	\$ 539
Dividends declared and not paid	\$ 141	\$ 140

See notes to consolidated financial statements.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Nature of Business

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Certificates of Deposit

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

Securities

The Company is required to classify its securities among three categories: held to maturity, trading, and available for sale. Management determines the appropriate classification at the time of purchase. Held to maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and are reported at amortized cost (unless there is other than temporary impairment). Trading securities are those debt and equity securities which are bought and held principally for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses included in earnings. Available for sale securities are those debt and equity securities which are neither held to maturity securities nor trading securities and are reported at fair value, with unrealized gains and losses, net of the related income tax effect, excluded from earnings and reported in a separate component of stockholders' equity. The Company did not have trading securities in its portfolio during 2017 or 2016.

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

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

Loans

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

Allowance for Loan Losses

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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

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

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

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

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

The allowance consists of specific and general reserves. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established or a partial charge-off is taken when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Beginning in the fourth quarter of 2012, the Company discontinued the use of specific allowances. If an impairment is identified, the Company now charges off the impaired portion immediately. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

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

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

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

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

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

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

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

The allowance calculation for each pool of loans is also based on the loss factors that reflect the Company's historical charge-off experience adjusted for current economic conditions applied to loan groups with similar characteristics or classifications in the current portfolio. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

loan as agreed, the Company has a structured loan rating process which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers.

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

Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses is appropriate as of December 31, 2017.

Concentration of Risk

The Company's lending activity is concentrated in loans secured by multi-family and non-residential real estate located primarily in the Northeast and Mid-Atlantic regions of the United States. The Company also had deposits in excess of the FDIC insurance limit at other financial institutions. At December 31, 2017, such deposits totaled \$12.2 million held by Atlantic Community Bankers Bank ("ACBB"), \$11.1 million held by the Federal Reserve Bank of New York, and \$8.7 million held by the Federal Home Loan Bank of New York. Generally, deposits in excess of \$250,000 are not insured by the FDIC.

Premises and Equipment

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

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

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

Bank Owned Life Insurance ("BOLI")

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

Investments in Restricted Stock

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

Goodwill

Goodwill at both December 31, 2017 and 2016, totaled \$749,000 and consists of goodwill acquired in the business combination completed by the Company in November 2007. The Company tests goodwill during the fourth quarter of each year for impairment,

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Goodwill (Continued)

or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting unit to the fair value of the unit. The Company estimates the fair value of the reporting unit through internal analyses and external valuation, which utilizes an income approach based on the present value of future cash flows. If the carrying value of the reporting unit exceeds its fair value, impairment exists and the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, if necessary, compares the implied fair value of a reporting unit's goodwill with its carrying value.

The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of the reporting unit to all of the assets and liabilities of that unit, including identifiable intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. No impairment charges were recorded in 2017 and 2016.

Other Intangible Assets

Other intangible assets at December 31, 2017 and 2016, totaled \$101,000 and \$162,000, respectively, and consist of the value of customer relationships acquired in a business combination completed by the Company in November 2007. The Company is amortizing these assets, using the straight-line method, over the remaining useful life of 11.7 years. Amortization expense is included in other non-interest expenses. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset's remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. The Company reviews intangible assets subject to amortization for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. If intangible assets are found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value. No impairment charges were recorded in 2017 or 2016.

Real Estate Owned

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

Property Held for Investment

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

Income Taxes

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

Federal, state and city income tax expense has been provided on the basis of reported income. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided, when necessary, for that portion of the asset, which is not more likely than not to be realized.

The Company accounts for uncertainty in income taxes recognized in its consolidated financial statements in accordance with ASC Topic 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not identified any significant income tax uncertainties through the evaluation of its income tax positions for the years ended December 31, 2017 and 2016, and has not recognized any liabilities for tax uncertainties as of December 31, 2017 and 2016. The Company's policy is to recognize income tax related interest and penalties in income tax expense; such amounts were not significant during the years ended December 31, 2017 and 2016. The tax years subject to examination by federal, state, and city taxing authorities are 2014 through 2017.

Other Comprehensive Income (Loss)

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

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

At December 31, 2017, accumulated other comprehensive loss totaled \$240,000 and included \$95,000 in unrealized loss on securities available-for-sale and \$259,000 in prior service cost and actuarial losses of the DRP net of \$114,000 of related deferred income taxes. At December 31, 2016, accumulated other comprehensive income totaled \$183,000 and included \$78,000 in unrealized loss on securities available-for-sale and \$231,000 in prior service cost and actuarial losses of the DRP net of \$126,000 of related deferred income taxes.

Net Income Per Common Share

Basic net income per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Unallocated common shares held by the Employee Stock Ownership Plan ("ESOP") are not included in the weighted-average number of common shares outstanding for purposes of calculating basic net income per common share until they are committed to be released. There were no dilutive common share equivalents at December 31, 2017 or 2016.

Off-Balance-Sheet Financial Instruments

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

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 2 – Mutual Holding Company Reorganization and Regulatory Matters

On July 5, 2006, the Bank reorganized from a mutual savings bank to a mutual holding company structure. In the reorganization, the Company sold 5,951,250 shares of its common stock to the public and issued 7,273,750 shares of its common stock to Northeast Community Bancorp, MHC (“MHC”). The MHC, which owned 59.6% of the Company’s common stock as of December 31, 2017, must hold at least 50.1% of the Company’s stock so long as the MHC exists.

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

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

Dividends declared by the Company in 2017 and 2016 and waived by the MHC totaled approximately \$873,000 and \$873,000, respectively. As of December 31, 2017, total dividends waived by the MHC aggregated \$8,729,000.

The Company and its subsidiary Bank are subject to regulatory capital requirements promulgated by the federal banking agencies. The Federal Reserve Board establishes capital requirements, including well capitalized standards, for the consolidated financial holding company, and the FDIC has similar requirements for the Company’s subsidiary bank.

Prior to January 1, 2015, quantitative measures were established by regulation to ensure capital adequacy which required the Bank to maintain minimum amounts and ratios of Total, Tier 1 capital (as defined by regulations) to risk-weighted assets (as defined), and of Core tier 1 capital to adjusted total assets (as defined).

Effective January 1, 2015, the Company adopted the Basel III final rule. Based on the Company’s capital levels and statement of condition composition at December 31, 2017, the implementation of the new rule had no material impact on our regulatory capital level or ratios at the Bank level. The new rule establishes limits at the Company level and increases the minimum Tier 1 capital to risk based assets requirement from 4% to 6% of risk-weighted assets; establishes a new common equity Tier 1 capital; and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The new rule has a capital conservation buffer requirement that will be phased in at a rate of 0.625% annually beginning January 1, 2016 through January 1, 2019, when full capital conservation buffer requirement of 2.50% will be effective. Management believes that the Bank met all capital adequacy requirements to which it was subject as of December 31, 2017 and 2016.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

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

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

	Actual		Regulatory Capital Requirements			
			Minimum Capital Adequacy (1)		For Classification as Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2017:						
Total capital (to risk-weighted assets)	\$ 104,410	13.41%	\$ ≥ 62,293	≥8.00 %	\$ ≥ 77,866	≥10.00 %
Tier 1 capital (to risk-weighted assets)	100,930	12.96	≥ 46,720	≥6.00	≥ 62,293	≥ 8.00
Common equity tier 1 capital (to risk-weighted)	100,930	12.96	≥ 35,040	≥4.50	≥ 50,613	≥ 6.50
Core (Tier 1) capital (to adjusted total assets)	100,930	13.05	≥ 30,938	≥4.00	≥ 38,672	≥ 5.00
As of December 31, 2016:						
Total capital (to risk-weighted assets)	\$ 95,646	14.00%	\$ ≥ 54,638	≥8.00 %	\$ ≥ 68,298	≥10.00 %
Tier 1 capital (to risk-weighted assets)	91,875	13.45	≥ 40,979	≥6.00	≥ 54,638	≥ 8.00
Common equity tier 1 capital (to risk-weighted)	91,875	13.45	≥ 30,734	≥4.50	≥ 44,394	≥ 6.50
Core (Tier 1) capital (to adjusted total assets)	91,875	13.20	≥ 27,836	≥4.00	≥ 34,796	≥ 5.00

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

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

Note 3 - Financial Instruments with Off-Balance Sheet Risk

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

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

	December 31,	
	2017	2016
(In Thousands)		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 87,054	\$ 45,972
Construction loans in process	202,834	145,788
Stand-by letters of credit	9,611	6,518
Commitments to fund unused lines of credit:		
Commercial and industrial lines	57,493	50,827
Multi-family real estate equity lines	2,320	4,618
Consumer lines	112	111
	<u>\$ 359,424</u>	<u>\$ 253,834</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

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

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

Note 4 - Securities Available for Sale

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
Mutual Funds	\$ 7,000	\$ -	\$ 95	\$ 6,905
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	21	-	-	21
Federal National Mortgage Association	1	-	-	1
	<u>\$ 7,022</u>	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ 6,927</u>

	December 31, 2016			
	(In Thousands)			
Mutual Funds	\$ 4,000		\$ 78	3,922
Mortgage-backed securities – residential:				
Federal Home Loan Mortgage Corporation	24	-	-	24
Federal National Mortgage Association	4	-	-	4
	<u>\$ 4,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,950</u>

There were no sales of securities available for sale during the years ended December 31, 2017 and 2016.

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

	December 31, 2017	
	Amortized Cost	Fair Value
(In Thousands)		
Due after one year but with five years	\$ 4	\$ 4
Due after five but within ten years	12	12
Due after ten years	6	6
	<u>\$ 22</u>	<u>\$ 22</u>

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 4 - Securities Available for Sale (Continued)

The age of unrealized losses and the fair value of related securities available for sale were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
December 31, 2017:						
Mutual Funds	\$ -	\$ -	\$ 6,905	\$ 95	\$ 6,905	\$ 95
December 31, 2016:						
Mutual Funds	\$ 3,922	\$ 78	\$ -	\$ -	\$ 3,922	\$ 78

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

Note 5 - Securities Held to Maturity

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities - residential:				
Government National Mortgage Association	\$ 2,575	\$ 66	\$ -	\$ 2,641
Federal Home Loan Mortgage Corporation	82	1	-	83
Federal National Mortgage Association	2,038	1	9	2,030
Collateralized mortgage obligations - GSE	2,341	6	-	2,347
	<u>\$ 7,036</u>	<u>\$ 74</u>	<u>\$ 9</u>	<u>\$ 7,101</u>
	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Mortgage-backed securities - residential:				
Government National Mortgage Association	\$ 3,269	\$ 57	\$ -	\$ 3,326
Federal Home Loan Mortgage Corporation	93	2	-	95
Federal National Mortgage Association	61	1	-	62
Collateralized mortgage obligations - GSE	632	17	-	649
	<u>\$ 4,055</u>	<u>\$ 77</u>	<u>\$ -</u>	<u>\$ 4,132</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 5 - Securities Held to Maturity (Continued)

Contractual final maturities of mortgage-backed securities were as follows at December 31, 2017:

	2017	
	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	\$ 2	\$ 2
Due after one but within five years	30	30
Due after five but within ten years	62	62
Due after ten years	6,942	7,007
Due after ten years	\$ 7,036	\$ 7,101

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

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
December 31, 2017:						
Federal National Mortgage Association	\$ 1,982	\$ 9	\$ -	\$ -	\$ 1,982	\$ 9

At December 31, 2017, one mortgage-backed securities had unrealized losses. Management concluded that the unrealized losses reflected above for the mortgage-backed securities were temporary in nature since they were related primarily to market interest rates and not related to the underlying credit quality of the issuer of the securities. Additionally, the Company has the ability and intent to hold these securities for the time necessary to recover the amortized cost.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses

	December 31,	
	2017	2016
	(In Thousands)	
Residential real estate:		
One-to-four family	\$ 15,080	\$ 13,704
Multi-family	152,881	174,718
Mixed-use	57,861	62,584
Total residential real estate	225,822	251,006
Non-residential real estate	70,613	70,526
Construction	341,105	251,017
Commercial and industrial	69,812	57,349
Consumer	93	111
Total Loans	707,445	630,009
Allowance for loan losses	(3,506)	(3,771)
Deferred loan (fees) costs, net	185	(99)
	<u>\$ 704,124</u>	<u>\$ 626,139</u>

Loans serviced for the benefit of others totaled approximately \$28,676,000 and \$13,573,000 at December 31, 2017 and 2016, respectively. The value of mortgage servicing rights was not material at December 31, 2017 and 2016.

The Company had no loans to related parties at December 31, 2017 and 2016. In addition, the Company did not originate any loans to related parties in 2017 and 2016.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

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

As of and For the Year Ended December 31, 2017:

	<u>Residential Real Estate</u>	<u>Non- residential Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	\$ 1,274	\$ 587	\$ 1,062	\$ 848	\$ -	\$ -	\$ 3,771
Charge-offs	(210)	(125)	-	-	-	-	(335)
Recoveries	19	-	-	-	-	-	19
Provision (Credit)	(86)	(19)	2	154	-	-	51
Ending balance	<u>\$ 997</u>	<u>\$ 443</u>	<u>\$ 1,064</u>	<u>\$ 1,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,506</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 997</u>	<u>\$ 443</u>	<u>\$ 1,064</u>	<u>\$ 1,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,506</u>
Loans receivable:							
Ending balance	<u>\$ 225,822</u>	<u>\$ 70,613</u>	<u>\$ 341,105</u>	<u>\$ 69,812</u>	<u>\$ 93</u>	<u>\$ -</u>	<u>\$ 707,445</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,603</u>
Ending balance: collectively evaluated for impairment	<u>\$ 224,237</u>	<u>\$ 70,613</u>	<u>\$ 341,105</u>	<u>\$ 66,794</u>	<u>\$ 93</u>	<u>\$ -</u>	<u>\$ 702,842</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

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

As of and For the Year Ended December 31, 2016:

	Residential Real Estate	Non- residential Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning balance	\$ 1,754	\$ 770	\$ 916	\$ 432	\$ -	\$ 23	\$ 3,895
Charge-offs	(349)	(5)	-	-	-	-	(354)
Recoveries	71	13	-	-	-	-	84
Provision (Credit)	(202)	(191)	146	416	-	(23)	146
Ending balance	<u>\$ 1,274</u>	<u>\$ 587</u>	<u>\$ 1,062</u>	<u>\$ 848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,771</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,274</u>	<u>\$ 587</u>	<u>\$ 1,062</u>	<u>\$ 848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,771</u>
Loans receivable:							
Ending balance	<u>\$ 251,006</u>	<u>\$ 70,526</u>	<u>\$ 251,017</u>	<u>\$ 57,349</u>	<u>\$ 111</u>	<u>\$ -</u>	<u>\$ 630,009</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,567</u>	<u>\$ -</u>	<u>\$ 400</u>	<u>\$ 2,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,658</u>
Ending balance: collectively evaluated for impairment	<u>\$ 249,439</u>	<u>\$ 70,526</u>	<u>\$ 250,617</u>	<u>\$ 54,658</u>	<u>\$ 111</u>	<u>\$ -</u>	<u>\$ 625,351</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

The following is an analysis of our impaired loans.

As of and for the Year Ended December 31, 2017:

<u>2017</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	\$ 1,585	\$ 1,585	\$ -	\$ 1,551	\$ -
Non-residential real estate	-	-	-	-	-
Construction	-	-	-	320	-
Commercial and industrial	3,018	3,018	-	2,838	4
	<u>4,603</u>	<u>4,603</u>	<u>-</u>	<u>4,709</u>	<u>4</u>
With an allowance recorded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total:					
Residential real estate-Multi-family	1,585	1,585	-	1,551	-
Non-residential real estate	-	-	-	-	-
Construction	-	-	-	320	-
Commercial and industrial	3,018	3,018	-	2,838	4
	<u>\$ 4,603</u>	<u>\$ 4,603</u>	<u>\$ -</u>	<u>\$ 4,709</u>	<u>\$ 4</u>

As of and for the Year Ended December 31, 2016:

<u>2016</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
	(In Thousands)				
With no related allowance recorded:					
Residential real estate-Multi-family	\$ 1,567	\$ 1,567	\$ -	\$ 1,428	\$ 9
Non-residential real estate	-	-	-	-	-
Construction	400	400	-	240	2
Commercial and industrial	2,691	2,691	-	2,683	-
	<u>4,658</u>	<u>4,658</u>	<u>-</u>	<u>4,351</u>	<u>11</u>
With an allowance recorded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total:					
Residential real estate-Multi-family	1,567	1,567	-	1,428	9
Non-residential real estate	-	-	-	-	-
Construction	400	400	-	240	2
Commercial and industrial	2,691	2,691	-	2,683	-
	<u>\$ 4,658</u>	<u>\$ 4,658</u>	<u>\$ -</u>	<u>\$ 4,351</u>	<u>\$ 11</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

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

Loans Receivable on Nonaccrual Status as of December 31:

	2017	2016
	(In Thousands)	
Residential real estate:		
Multi-family	\$ -	\$ 197
Mixed-use	1,585	1,567
Commercial and industrial loans	2,919	2,691
	<u>\$ 4,504</u>	<u>\$ 4,455</u>

During the years ended December 31, 2017 and 2016, the Company recognized interest income of approximately \$4,000 and \$18,000, respectively, on non-accrual loans. Interest income that would have been recorded had the loans been on accrual status would have amounted to approximately \$154,000 and \$181,000 for the years ended December 31, 2017 and 2016, respectively. The Company is not committed to lend additional funds to borrowers whose loans have been placed on non-accrual status.

The following table provides information about delinquencies in our loan portfolio at the dates indicated.

Age Analysis of Past Due Loans as of December 31, 2017:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	\$ -	\$ -	\$ -	\$ -	\$ 15,080	\$ 15,080	\$ -
Multi-family	-	-	144	144	152,737	152,881	144
Mixed-use	-	-	1,585	1,585	56,276	57,861	-
Non-residential real estate	-	-	-	-	70,613	70,613	-
Construction loans	-	-	-	-	341,105	341,105	-
Commercial and industrial loans	-	-	3,018	3,018	66,794	69,812	99
Consumer	-	-	1	1	92	93	1
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,748</u>	<u>\$ 4,748</u>	<u>\$ 702,697</u>	<u>\$ 707,445</u>	<u>\$ 244</u>

Age Analysis of Past Due Loans as of December 31, 2016:

	30-59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
	(In Thousands)						
Residential real estate:							
One- to four-family	\$ -	\$ -	\$ -	\$ -	\$ 13,704	\$ 13,704	\$ -
Multi-family	-	197	-	197	174,521	174,718	-
Mixed-use	-	-	1,567	1,567	61,017	62,584	-
Non-residential real estate	-	-	481	481	70,045	70,526	481
Construction loans	-	-	400	400	250,617	251,017	400
Commercial and industrial loans	-	100	2,691	2,791	54,558	57,349	-
Consumer	-	-	-	-	111	111	-
	<u>\$ -</u>	<u>\$ 297</u>	<u>\$ 5,139</u>	<u>\$ 5,436</u>	<u>\$ 624,573</u>	<u>\$ 630,009</u>	<u>\$ 881</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 6 - Loans Receivable and the Allowance for Loan Losses (Continued)

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

Credit Risk Profile by Internally Assigned Grade as of December 31, 2017:

	<u>Residential Real Estate</u>	<u>Non-residential Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
	(In Thousands)					
Grade:						
Pass	\$ 224,237	\$ 70,613	\$ 341,105	\$ 66,288	\$ 93	\$ 702,336
Special Mention	-	-	-	506	-	506
Substandard	1,585	-	-	3,018	-	4,603
Doubtful	-	-	-	-	-	-
	<u>\$ 225,822</u>	<u>\$ 70,613</u>	<u>\$ 341,105</u>	<u>\$ 69,812</u>	<u>\$ 93</u>	<u>\$ 707,445</u>

Credit Risk Profile by Internally Assigned Grade as of December 31, 2016:

	<u>Residential Real Estate</u>	<u>Non-residential Real Estate</u>	<u>Construction</u>	<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Total</u>
	(In Thousands)					
Grade:						
Pass	\$ 249,242	\$ 69,816	\$ 250,617	\$ 53,774	\$ 111	\$ 623,560
Special Mention	-	710	-	884	-	1,594
Substandard	1,764	-	400	2,691	-	4,855
Doubtful	-	-	-	-	-	-
	<u>\$ 251,006</u>	<u>\$ 70,526</u>	<u>\$ 251,017</u>	<u>\$ 57,349</u>	<u>\$ 111</u>	<u>\$ 630,009</u>

There were no loans modified that were deemed troubled debt restructuring during the years ended December 31, 2017 and 2016. During the years ended December 31, 2017 and 2016, none of the loans that were modified during the previous twelve months had defaulted during the years ended December 31, 2017 and 2016.

Note 7 - Premises and Equipment, Net

Premises and equipment at December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
	(In Thousands)	
Land	\$ 2,128	\$ 2,628
Buildings and improvements	11,524	12,637
Leasehold improvements	1,175	1,162
Furnishings and equipment	<u>7,268</u>	<u>7,364</u>
	22,095	23,791
Accumulated depreciation and amortization	<u>(9,044)</u>	<u>(9,733)</u>
	<u>\$ 13,051</u>	<u>\$ 14,058</u>

The Company closed the Plymouth, Massachusetts office on April 14, 2017 and transferred the fixed assets to property held for investment.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 8 - Accrued Interest Receivable, Net

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

	2017	2016
	(In Thousands)	
Loans receivable	\$ 3,744	\$ 2,972
Securities	14	7
	3,758	2,979
Allowance for uncollected interest	(565)	(432)
	<u>\$ 3,193</u>	<u>\$ 2,547</u>

Note 9 - Goodwill and Intangible Assets

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

	2017	2016
	(In Thousands)	
Goodwill	\$ 749	\$ 749
Customer relationships intangible	101	162
	<u>\$ 850</u>	<u>\$ 911</u>

The Company did not identify any impairment of goodwill and intangible assets during the years ended December 31, 2017 and 2016. Amortization expense of customer relationships intangible was \$61,000 for the years ended December 31, 2017 and 2016. Scheduled amortization for each of the next two years is as follows (in thousands):

2018	\$ 61
2019	40

Note 10 - Real Estate Owned ("REO")

The Company owned two foreclosed properties valued at approximately \$2,491,000 at December 31, 2017 consisting of an office building located in Pennsylvania (\$2,136,000 at December 31, 2017) and a building housing auto repair and auto rental facilities located in Massachusetts (\$355,000 at December 31, 2017). The two properties were acquired through foreclosure during the year ended December 31, 2014. The Company has started to depreciate the office building located in Pennsylvania upon determining to renovate and fully lease-up the building to enhance the value of the property for possible sale and/or long term investment.

The Company owned three foreclosed properties valued at approximately \$6,272,000 at December 31, 2016 consisting of an office building located in New Jersey (\$3,753,000 at December 31, 2016), an office building located in Pennsylvania (\$2,164,000 at December 31, 2016), and a building housing auto repair and auto rental facilities located in Massachusetts (\$355,000 at December 31, 2016). All the properties were acquired through foreclosures during the year ended December 31, 2014, except for the office building located in New Jersey that was acquired through a foreclosure in 2012.

The Company recognized a loss and established a valuation allowance of \$294,000 in August 2016 against the office building located in New Jersey and subsequently sold the property on January 31, 2017 at a loss of \$72,000. In addition, the Company recognized a loss and established a valuation allowance of \$30,000 in 2016 against the building housing auto repair and auto rental facilities located in Massachusetts.

Further declines in real estate values may result in impairment charges in the future. Routine holding costs are charged to expense as incurred and improvements to real estate owned that enhance the value of the real estate are capitalized. REO expense, including loss on sales and write-downs, amounted to \$62,000 and \$478,000 during the years ended December 31, 2017 and 2016.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 11 – Property Held For Investment

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

	<u>2017</u>	<u>2016</u>
	(In Thousands)	
Land	\$ 500	\$ -
Buildings and improvements	<u>2,078</u>	<u>636</u>
	2,578	636
Accumulated depreciation and amortization	<u>(426)</u>	<u>(97)</u>
	<u>\$ 2,152</u>	<u>\$ 539</u>

The Company owned two properties at December 31, 2017 consisting of a former branch office (\$1,629,000) located in Plymouth, Massachusetts and an apartment building (\$523,000) located in Newark, New Jersey. The apartment building was acquired through foreclosure during the year ended December 31, 2008. The Company owned one property at December 31, 2016 consisting of an apartment building located in Newark, New Jersey.

Note 12 – Deposits

	<u>December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Weighted Average Interest Rate</u>	<u>Amount</u>	<u>Weighted Average Interest Rate</u>
	(Dollars in Thousands)			
Demand deposits:				
Non-interest bearing	\$ 108,185	0.00 %	\$ 91,191	0.00 %
NOW and money market	<u>123,580</u>	0.86 %	<u>103,890</u>	0.73 %
Total	<u>231,765</u>	0.46 %	<u>195,081</u>	0.39 %
Savings accounts	<u>88,281</u>	0.58 %	<u>84,735</u>	0.46 %
Certificates of deposit maturing in:				
One year or less	193,697	1.45 %	134,826	1.49 %
After one to two years	60,882	1.79 %	101,093	1.47 %
After two to three years	29,099	1.93 %	17,792	1.83 %
After three to four years	7,400	1.88 %	5,408	1.82 %
After four years	<u>14,087</u>	2.24 %	<u>6,411</u>	1.89 %
Total	<u>305,165</u>	1.61 %	<u>265,530</u>	1.52 %
	<u>\$ 625,211</u>	1.04 %	<u>\$ 545,346</u>	0.95 %

As of December 31, 2017 and 2016, certificates of deposits equal to or in excess of \$250,000 totaled approximately \$90,192,000 and \$75,234,000, respectively.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 12 – Deposits (Continued)

The aggregate amount of brokered deposits was \$33.7 million and \$26.0 million as of December 31, 2017 and 2016, respectively. At December 31, 2017, the Company had \$22.9 million in brokered deposits, \$9.9 million in Insured Cash Sweep (“ICS”) reciprocal money market deposits, and \$900,000 in Certificates of Deposit Account Registry Service (“CDARS”) reciprocal certificates of deposits. The ICS and CDARS deposits were fully-insured brokered deposits as defined in the FDIC call report instructions. The ICS money market deposits were obtained from one retail depositor and the CDARS certificates of deposits were obtained from another retail depositor and then transferred into the ICS and CDARS Networks in order to obtain full FDIC insurance coverage for our customers. These types of deposits are known in the ICS and CDARS Networks as reciprocal deposits, which the Company considers as core deposits and not brokered deposits. At December 31, 2016, the Company had \$9.4 million in brokered deposits, \$15.6 million in ICS reciprocal money market deposits, and \$996,000 in CDARS reciprocal certificates of deposits.

Interest expense on deposits consists of the following:

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Demand deposits	\$ 993	\$ 677
Savings accounts	442	322
Certificates of deposit	4,258	3,548
	<u>\$ 5,693</u>	<u>\$ 4,547</u>

Note 13 – Federal Home Loan Bank of New York (“FHLB”) Advances

	December 31,			
	2017		2016	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in Thousands)			
Advances maturing in:				
One year or less	\$ 40,408	1.39 %	\$ 7,380	0.73 %
After one to two years	22,461	1.18 %	40,408	1.39 %
After two to three years	-	-	22,461	1.18 %
	<u>\$ 62,869</u>	1.32 %	<u>\$ 70,249</u>	1.25 %

At December 31, 2017, none of the above advances were subject to early call or redemption features. At December 31, 2017, the advances were secured by a pledge of the Company’s investment in the capital stock of the FHLB and a blanket assignment of the Company’s otherwise unpledged qualifying mortgage loans. At December 31, 2017, the Company had the ability to borrow \$105.7 million, net of \$62.9 million in outstanding advances, from the FHLB and \$8.0 million from ACBB.

Note 14 - Income Taxes

The Bank qualifies as a savings institution under the provisions of the Internal Revenue Code and was, therefore, prior to January 1, 1996, permitted to deduct from taxable income an allowance for bad debts based upon eight percent of taxable income before such deduction, less certain adjustments. Retained earnings at December 31, 2017 and 2016, include approximately \$4.1 million of such bad debt deductions which, in accordance with U.S. GAAP is considered a permanent difference between the book and income tax basis of loans receivable, and for which deferred income taxes have not been provided. If such amount is used for purposes other than for bad debt losses, including distributions in liquidation, it will be subject to income tax at the then current rate.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 14 - Income Taxes (Continued)

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

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Current tax expense	\$ 5,151	\$ 3,274
Deferred tax expense (benefit)	1,326	(156)
	<u>\$ 6,477</u>	<u>\$ 3,118</u>

The following table presents a reconciliation between the reported income taxes and the income taxes, which would be computed by applying the existing federal income tax rate of 34% to income before taxes:

	Years Ended December 31,	
	2017	2016
	(Dollars In Thousands)	
Federal income tax at statutory rates	\$ 4,939	\$ 2,769
State and city tax, net of federal income tax effect	347	354
Non-taxable income on bank owned life insurance	(199)	(213)
Change in valuation allowance against deferred assets	385	228
Other	(75)	(20)
Re-measurement of federal deferred tax assets and liabilities	1,080	-
	<u>\$ 6,477</u>	<u>\$ 3,118</u>
Effective Income Tax Rate	<u>44.6 %</u>	<u>38.3 %</u>

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

	December 31,	
	2017	2016
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,019	\$ 1,553
State net operating loss carryforwards	327	228
Reserve for uncollected interest	161	174
Depreciation	68	160
Benefit plans	1,368	1,765
Accumulated other comprehensive loss - DRP	87	94
Unrealized loss on available-for-sale securities	27	32
Other	125	130
Total Deferred Tax Assets	<u>3,182</u>	<u>4,136</u>
Deferred tax liability:		
Goodwill	89	90
Total Deferred Tax Liabilities	<u>89</u>	<u>90</u>
Valuation Allowance - State Deferred Tax Assets	<u>(613)</u>	<u>(228)</u>
Net Deferred Tax Assets Included in Other Assets	<u>\$ 2,480</u>	<u>\$ 3,818</u>

The Company has state net operating loss (NOL) carryforwards totaling \$4,400,000 at December 31, 2017 that are available to be carried forward to future years. These NOL carryforwards will expire in 2032 if not fully utilized.

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 14 - Income Taxes (Continued)

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The Act includes many provisions that will affect the Company's income tax expenses, including reducing the corporate federal tax rate from 35% to 21%. As a result of the rate reduction, the Company was required to re-measure, through income tax expense in the period of the legislation enactment, the Company's deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the net deferred tax assets and liabilities resulted in additional income tax expense of \$1.1 million in 2017.

Note 15 - Other Non-Interest Expenses

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

	Years Ended December 31,	
	2017	2016
	(In Thousands)	
Other	\$ 999	\$ 552
Telephone	541	526
Service contracts	539	550
Directors compensation	494	433
Consulting expense	367	319
Audit and accounting	335	296
Director, officer, and employee expenses	335	264
Insurance	273	265
Legal fees	178	204
Office supplies and stationary	81	111
Recruiting expense	65	86
	<u>\$ 4,207</u>	<u>\$ 3,606</u>

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 16 - Benefits Plans

Outside Director Retirement Plan (“DRP”)

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

	Years Ended December 31,	
	2017	2016
	(Dollars In Thousands)	
Projected benefit obligation – beginning	\$ 1,538	\$ 1,186
Service cost	96	84
Interest cost	59	54
Actuarial loss	121	229
Benefits Paid	(50)	(15)
Projected benefit obligation – ending	\$ 1,764	\$ 1,538
Funded status – accrued liability included in accounts payable and accrued expenses	\$ 1,764	\$ 1,538
Accumulated benefit obligation	\$ 1,698	\$ 1,483
Discount rate	3.65 %	3.84 %
Salary increase rate	2.00 %	2.00 %
	Years Ended December 31,	
	2017	2016
	(Dollars In Thousands)	
Net periodic pension expense:		
Service cost	\$ 96	\$ 84
Interest cost	59	54
Actuarial loss recognized	22	(13)
Prior service cost recognized	21	21
Total net periodic pension expense included in other non-interest expenses	\$ 198	\$ 146
Discount rate	3.65 %	3.84 %
Salary increase rate	2.00 %	2.00 %

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

2018	\$ 136
2019	136
2020	136
2021	179
2022	179
2023 to 2027	809

Supplemental Executive Retirement Plan (“SERP”)

The SERP is a non-contributory defined benefit plan that covers certain officers of the Company.

Under the SERP, each of these individuals will be entitled to receive upon retirement an annual benefit paid in monthly installments equal to 50% of his average base salary in the three-year period preceding retirement. Each individual may also retire early and

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 16 - Benefits Plans (Continued)

Supplemental Executive Retirement Plan (“SERP”) (Continued)

receive a reduced benefit upon the attainment of certain age and years of service combination. Additional terms related to death while employed, death after retirement, disability before retirement and termination of employment are fully described within the plan document. The benefit payment term is the greater of 15 years or the executives remaining life. No benefits are expected to be paid during the next ten years.

During the years ended December 31, 2017 and 2016, expenses of \$271,000 and \$166,000, respectively, were recorded for this plan and are reflected in the Consolidated Statements of Operations under Salaries and Employee Benefits. At December 31, 2017 and 2016, a liability for this plan of \$2,486,000 and \$2,214,000, respectively, is included in the Consolidated Statements of Financial Condition under Accounts Payable and Accrued Expenses.

401(k) Plan

The Company maintains a 401(k) plan for all eligible employees. Participants are permitted to contribute from 1% to 15% of their annual compensation up to the maximum permitted under the Internal Revenue Code. The Company provided no matching contribution in 2017 and 2016.

Employee Stock Ownership Plan (“ESOP”)

In conjunction with Company’s initial public stock offering, the Bank established an ESOP for all eligible employees (substantially all full-time employees). The ESOP borrowed \$5,184,200 from the Company and used those funds to acquire 518,420 shares of Company common stock at \$10.00 per share. The loan from the Company carries an interest rate of 8.25% and is repayable in twenty annual installments through 2025. Each year, the Bank makes discretionary contributions to the ESOP equal to the principal and interest payment required on the loan from the Company. The ESOP may further pay down the principal balance of the loan by using dividends paid, if any, on the shares of Company common stock it owns. The balance remaining on the ESOP loan was \$2,944,000 and \$3,197,000 at December 31, 2017 and 2016, respectively.

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

ESOP shares initially pledged as collateral were recorded as unearned ESOP shares in the stockholders’ equity section of the consolidated statement of financial condition. Thereafter, on a monthly basis over a 240 month period, approximately 2,160 shares are committed to be released and compensation expense is recorded equal to the shares committed to be released multiplied by the average closing price of the Company’s stock during that month. ESOP expense during the years ended December 31, 2017 and 2016, totaled approximately \$233,000 and \$177,000, respectively. Dividends on unallocated shares, which totaled approximately \$29,000 and \$32,000 during 2017 and 2016, respectively, are recorded as a reduction of the ESOP loan. Dividends on allocated shares, which totaled approximately \$33,000 and \$30,000 during 2017 and 2016, respectively, are charged to retained earnings.

ESOP shares are summarized as follows:

	December 31,	
	2017	2016
Allocated shares	285,131	259,210
Shares committed to be released	25,921	25,921
Unearned shares	207,368	233,289
Total ESOP Shares	518,420	518,420
Less allocated shares distributed to former or retired employees	(76,509)	(55,290)
Total ESOP Shares Held by Trustee	441,911	463,130
Fair value of unearned shares	\$ 2,094,000	\$ 1,843,000

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 17 - Commitments and Contingencies

Lease Commitments

Rentals under operating leases for certain branch offices and land amounted to \$320,000 and \$395,000 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the minimum rental commitments under all non-cancelable leases with initial or remaining terms of more than one year are as follows (in thousands):

Year ending December 31,		
2018	\$	229
2019		227
2020		145
2021		113
2022		83
Thereafter		5,076
	\$	<u>5,873</u>

Other

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

Note 18 - Fair Value Disclosures

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

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

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 - Fair Value Disclosures (Continued)

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

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2017:				
(In Thousands)				
Recurring:				
Mutual Funds:	\$ 6,905	\$ 6,905	\$ -	\$ -
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	21	-	21	-
Federal National Mortgage Association	1	-	1	-
Total	\$ 6,927	\$ 6,905	\$ 22	\$ -
Nonrecurring:				
Real estate owned	\$ 2,491	\$ -	\$ -	\$ 2,491
December 31, 2016:				
(In Thousands)				
Recurring:				
Mutual Funds:	\$ 3,922	\$ 3,922	\$ -	\$ -
Mortgage-backed securities - residential:				
Federal Home Loan Mortgage Corporation	24	-	24	-
Federal National Mortgage Association	4	-	4	-
Total	\$ 3,950	\$ 3,922	\$ 28	\$ -
Nonrecurring:				
Real estate owned	\$ 4,107	\$ -	\$ -	\$ 4,107

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

At December 31, 2016 to account for the aforementioned factors, adjustments to appraisal or fair values for real estate owned ranged from 7.8% to 8.5%.

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 - Fair Value Disclosures (Continued)

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2017 and 2016:

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

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

Securities

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

Loans

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

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

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

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

Investments in Restricted Stocks

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

Deposit Liabilities

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

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 - Fair Value Disclosures (Continued)

FHLB of New York Advances

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

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At December 31, 2017 and 2016, the estimated fair values of these off-balance-sheet financial instruments were immaterial.

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

(In thousands)	Carrying Amount	Fair Value	Fair Value at December 31, 2017		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	\$ 43,601	\$ 43,601	\$ -	\$ 43,601	\$ -
Certificates of deposit	150	150	-	150	-
Securities available for sale	6,927	6,927	6,905	22	-
Securities held to maturity	7,036	7,101	-	7,101	-
Loans receivable	704,124	704,262	-	-	704,262
Investments in restricted stock	3,306	3,306	-	3,306	-
Accrued interest receivable	3,193	3,193	-	3,193	-
Financial Liabilities					
Deposits	625,211	611,316	-	611,316	-
FHLB of New York advances	62,869	62,391	-	62,391	-
Accrued interest payable	6	6	-	6	-

Northeast Community Bancorp, Inc.

Notes to Consolidated Financial Statements

Note 18 - Fair Value Disclosures (Continued)

(In thousands)	Carrying Amount	Fair Value	Fair Value at December 31, 2016		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets					
Cash and cash equivalents	\$ 43,173	\$ 43,173	\$ -	\$ 43,173	\$ -
Certificates of deposit	648	648	-	648	-
Securities available for sale	3,950	3,950	3,922	28	-
Securities held to maturity	4,055	4,132	-	4,132	-
Loans receivable	626,139	628,748	-	-	628,748
Investments in restricted stock	3,774	3,774	-	3,774	-
Accrued interest receivable	2,547	2,547	-	2,547	-
Financial Liabilities					
Deposits	545,346	548,036	-	548,036	-
FHLB of New York advances	70,249	69,858	-	69,858	-
Accrued interest payable	2	2	-	2	-

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NORTHEAST COMMUNITY BANCORP, INC.

Board of Directors

Kenneth A. Martinek

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Charles A. Martinek

Executive Officers of Northeast Community Bancorp, Inc.

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

Jose M. Collazo
President and Chief Operating Officer

Donald S. Hom
Executive Vice President and Chief Financial Officer

Executive Officers of Northeast Community Bank

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

Jose M. Collazo
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