

**Apple Financial Holdings, Inc.**

**Exception Policy**

**September 15, 2021**

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***POLICY NAME: Exception Policy***

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**REVIEW AND TRACKING CHART**

Effective Date*:	September 15, 2021
Version Number:	2.2
Policy Level:	Policy Level 3
Corresponding Board Review Frequency:	Triennial (Every 36 Months)
Board or Designated Board Committee:	Board Risk Committee (BRC)
Last Board Review Date*:	September 30, 2020
Next Board Review Date*:	September 2023
Designated Management Committee:	Management Risk Committee (MRC)
Last Management Review Date*:	September 15, 2021
Next Management Review Date*:	September 2022
Policy Owner:	Richard Leite, SVP, Risk Management

## I. POLICY PURPOSE STATEMENT AND SCOPE

The Exception Policy (the “Policy”) applies to the development, implementation, management, and monitoring of non-lending-related exceptions Apple Financial Holdings, Inc. (“AFH”), inclusive of Apple Bank for Savings and its subsidiaries (collectively, “ABS,” “Apple,” or the “Bank”) in accordance with applicable state and federal statutes, rules and regulations

All AFH employees and third party resources engaged by the Bank must comply with the terms of this Policy to the degree applicable to them.

## II. DEFINITIONS

- **Annual or Annually:** Every twelve (12) months.
- **Control Form:** The form to be submitted to the PPA (defined in this Section) in connection with revised Policies, Standards, Procedures, or Manuals. The Control Form is available on AppleNet.
- **Immaterial Change:** A change that does not alter the substance of the policy in any way, but rather is a change only to grammar, formatting, template, typos, and the like.
- **Legal Contact:** The attorney from the Legal Department assigned to the group responsible for this Policy. The attorney does initial and ongoing reviews of the Policy; serves in an advisory capacity.
- **Material Change:** A change that alters the substance of the policy in any way or how it is applied, such as a change to a definition, phrase, vendor name, threshold, or anything beyond an immaterial change as defined above.
- **Policy Level 3:** A Regular Board Review Cycle level for a Policy, designated by Risk Management in consult with Legal. Level 3 policies require Triennial approval by the Board or a Board level committee.
- **Policy Owner:** The person responsible for management and tracking of the Policy. This includes initiating the review of the Policy and recommending updates to the Policy, to the extent needed. Policy Owners are responsible for obtaining the appropriate level of approval and providing the approved documents to the Policies and Procedures Administrator (“PPA”) (defined in this Section) for upload to AppleNet. Additionally, the Policy Owner is responsible for presenting revisions and Policy exception requests for consideration.
- **Policies and Procedures Administrator (“PPA”):** The PPA is a member of Risk Management. The PPA monitors the occurrence and timeliness of scheduled Policy reviews, obtains the updated versions of Policies, and ensures that they are uploaded to AppleNet. The PPA shall review Policies and advise the Policy Owner if procedures have been errantly included in the Policy, and the Policy Owner shall revise accordingly. The PPA will also provide guidance regarding the use of the PPGP (as defined in this section) to Bank Personnel.
- **Policy and Procedures Governance Policy (PPGP):** The PPGP establishes a standardized and

consistent approach to the creation, review, approval and maintenance of Policies, Standards, Procedures, and Manuals across the Bank.

- **Policy, Standards, Procedures, and Manual Index:** An index, maintained by the PPA, which sets out the Policy, Standards, Procedures, or Manual name, Owner, regularly scheduled review dates, Regular Board Review Cycle (to the extent applicable), Designated Management Committee, and Designated Board Committee (to the extent applicable). The index is available on AppleNet.
- **Regular Board Review Cycle:** The required periodic Board or Designated Board Committee approval process for a Policy, the frequency of which is determined by the designation of a Policy as a Level 1, Level 2, or Level 3 Policy.
- **Triennial or Triennially:** Every thirty-six (36) months.

### III. KEY POLICY COMPONENTS

#### 1. Executive Summary

This Exception Policy (the “Policy”) formalizes a consistent Bank-wide approach to managing exceptions to policies and ensures it is adhered to across the organization. The Policy establishes roles and responsibilities in the context of exception management, outlines the standards expected, and is aligned with the Bank’s Risk Management Framework.

#### 2. Objectives and Scope

The objective of this Policy is to establish a standardized and consistent approach to managing exceptions. This policy applies to non-lending related exceptions. Lending related exceptions continue to be managed and governed by the appropriate credit and lending policies and committees. The guidance in this Policy is designed to be supplemental activity to existing guidance in currently drafted policies.

#### 3. Key Components of Policy

During the course of normal operations or as the result of a focused review, business process owners may become aware of an exception to a policy for which there is no practical immediate remediation (example: end-of-life software where security patches are available), or the Bank may determine it wants to do something that does not align with a current policy (example: continue services from a third party where the current contract has expired and is in renegotiation), and the Bank does not want to change the policy. Both instances represent exceptions to policy, and the process for managing exceptions is as follows:

- a. Process owner logs the exception and associated risk in the Issue management component of the Bank’s system of record (GRC), including:
  - i. The specific policy/standard for which an exception is required
  - ii. The process, product, device, application or service for which the exception is required

- iii. Why the exception is required (i.e. business need and/or alternatives considered, and why are they not appropriate)
  - iv. Identify any regulatory guidance that may be violated as a result of non-compliance
  - v. Remediation plan and plan for mitigating risks (i.e. compensating controls)
  - vi. Anticipated length of non-compliance
- b. Second-line-of-defense (i.e., Risk Management Department, Compliance, FCC, CISO, etc.) reviews exception, assesses the potential risk and determines any need to escalate to appropriate governance committee for awareness or approval (i.e. quantum of risk is outside of Bank's risk appetite, or there is a potential for a violation of a regulation)
  - c. Policy owner for which an exception is required is notified
  - d. If anticipated length of non-compliance is greater than one year, an action is created in the GRC tool to re-review the exception within a twelve month window
  - e. Second-line-of-defense presents all exceptions as identified and their ongoing status to MRC, and if compliance related, at CMC

#### **4. Escalation Procedures**

The Policy Owner will monitor this Policy. Any non-compliance with the Policy will be escalated to the Designated Management Committee for resolution. If the Designated Management Committee cannot resolve the issue, it will be escalated to the Executive Management Steering Committee ("EMSC") for further consideration. If the issue cannot be resolved by the EMSC the issue will be escalated to Board or Designated Board Committee for further consideration.

## **IV. REQUIRED PERIODIC REVIEW AND APPROVAL CYCLE**

### **(A) Required Triennial (36 Month) Board Review And Approval Cycle (Policy Level 3)**

The Policy Owner is responsible for initiating a Regular Board Review Cycle on a Triennial (every 36 months) basis prior to the Next Board Review Date. The Policy Owner will track the Next Board Review Date for the Policy and begin the review process early enough to provide ample time for all necessary approvals to occur in a timely manner.

Once an updated Policy has been approved by the Designated Board Committee (or the Board, as the case may be), the updated Policy shall go into effect and the Policy Owner shall be responsible for delivering the approved Policy document to the PPA within seven days of the approval date so that it can be loaded in a timely manner to AppleNet or such other intranet site where Policies are stored and made available to the employees of the Bank.

### **(B) Required Annual (12 Month) Management Review (Policy Level 3)**

This Policy shall be reviewed Annually by the Policy Owner, in consultation with the Legal Contact, and updated (if necessary).

If the changes are Immaterial Changes (i.e., no change to any substance of this Policy, but rather grammar, formatting, template, typos, etc.), or Material Changes that do not alter the scope and purpose of this Policy or do not lessen a requirement for transactions or actions governed under this Policy (e.g., lowering a loan review threshold from \$5k to \$3k), such changes shall be submitted to the Designated Management Committee for final approval and no further approval is required. A record of all such changes shall be kept and submitted for reference to the Designated Board Committee (or the Board, as the case may be) during the Regular Board Review Cycle (or the next time the Policy requires interim Board approval, whichever comes first).

If the changes are Material Changes that alter the scope and purpose of this Policy or lessen a requirement for transactions or actions governed under this Policy (e.g., lowering a loan review threshold from \$5k to \$3k), then this Policy shall be submitted to the Designated Management Committee for review and recommendation of the updated Policy to the Designated Board Committee for review and final approval. If the Designated Management Committee cannot agree on an issue or a change to the Code, it shall be submitted to the EMSC for consideration.

Once the updated Policy has received final approval by either the Designated Management Committee or the Designated Board Committee (or the Board, as the case may be), the updated Policy shall go into effect and the Policy Owner shall be responsible for delivering the approved Policy document to the PPA within seven days of the approval date so that it can be loaded in a timely manner to AppleNet or such other intranet site where Policies are stored and made available to the employees of the Bank.

## **V. OFF-CYCLE REVIEW AND APPROVAL PROCESS**

### **Off-Cycle Policy Changes – Review and Approval Process (Policy Level 3)**

If the Policy requires changes to be made outside the Required Board Review Cycle outlined in the previous section, review and approval shall follow the Required Annual (12 Month) Management Review process outlined in Section IV(B) above.

## **VI. DESIGNATED COMMITTEES AND POLICY LEVEL REVIEW**

Risk Management, in conjunction with Legal, identifies the Designated Management Committee, Designated Board Committee (or the Board, as appropriate), and Policy Level for this Policy, and re-evaluates the same at least Annually. Changes, if any, will be communicated to the Policy Owner, who shall update the Policy accordingly, as well as the PPA.

## **VII. EXCEPTIONS TO THE POLICY**

Requests for exceptions to this Policy must be specific and may only be granted on specific items, rather than to entire sections. Apple Bank staff will communicate their exception requests in writing to the Policy Owner, who will then present the request to the Designated Management Committee for consideration.

## VIII. RETIREMENT OF POLICIES

In the event this Policy needs to be retired or merged with or into another Policy, the Policy Owner must notify the PPA and provide a rationale for the proposed retirement or merger. The Bank's General Counsel and Chief Risk Officer will review the rationale and determine whether the requested action is appropriate. Notice of retired Policies shall be provided to the Board or relevant Designated Board Committee on a semi-annual basis.

## IX. ROLES AND RESPONSIBILITIES

The key roles and responsibilities for this Policy are summarized below:

**CISO and Information Security:** The CISO and the Information Security Department will provide effective oversight and governance to ensure that all Information Security policies, processes and procedures are being adhered to for the purposes of system acquisition, development, and maintenance. This includes, but is not limited to, roles and responsibilities, operations, monitoring and/or other key components as set forth in the Information Security policy.

**CTO:** The CTO and his designated representatives are responsible for creating and reviewing new and updated policies and in charge of day to day oversight of Management policies and procedures.

**Designated Board Committee:** The Designated Board Committee provides general oversight over management's administration of the Policy. The Designated Board Committee is responsible for initially approving this Policy and reviewing the Policy on a [Annual, Biennial, Triennial] basis according to the Policy Level (*refer to the Review and Tracking Chart*).

**Designated Management Committee:** The Designated Management Committee is responsible for reviewing and approving changes to the Policy as set forth herein on an Annual basis (except in the year designated for Board approval) and submitting material changes to the Designated Board Committee, or Board, as appropriate.

**Executive Management Steering Committee (EMSC):** To the extent necessary, the ESMC shall consider matters that cannot be decided by the Designated Management Committee.

**Senior Management:** Members of management and business units are responsible for implementing this Policy, ensuring compliance and understanding of this Policy as well as developing procedures for his/her unit, to the extent needed, that align with the requirements of this Policy.

**Policy Owner:** *See Section II – Definitions.*

**Risk Management:** Risk Management, in conjunction with Legal, determines the initial Designated Management Committee, Designated Board Committee (or Board, as appropriate), and Policy Level of the Policy, and re-evaluates the same at least Annually.

**Policies and Procedures Administrator ("PPA"):** *See Section II – Definitions.*



**Legal Contact:** See Section II – Definitions.

**Internal Audit:** The internal audit team is responsible for the periodic audit of this Policy. Internal Audit will review the processes and any related gaps will be identified as findings to be monitored and remediated.

#### **X. RECORD RETENTION**

Any records created as a result of this Policy should be held pursuant to the Bank's Record Retention and Disposal Policy. Should records created as a result of this Policy require a different retention period (either a shorter or longer time period), the Policy Owner (in conjunction with the relevant business area leader) must describe the rationale for a different retention period and share the rationale with the Designated Management Committee.

#### **XI. QUESTIONS AND CONTACT INFORMATION**

Questions regarding compliance with this Policy may be addressed to the Policy Owner listed in the tracking chart on the first page.

#### **XII. LIST OF REFERENCE DOCUMENTS**

None

#### **XIII. REVISION HISTORY**

Version	Date	Description of Change	Author	Approver
1.0	8/21/18	New policy	P. Nucum, M. Mirza	Board Operations & Technology
1.1	7/2019	Policy update to reflect enhanced CISO role	K. Shurgan	Board Operations & Technology
2.0	9/2020	Updated to transition policy ownership to the Risk Management Department and expand scope to be Bank-wide	R. Leite	Management Risk Committee
2.1	9/2020	Clarified scope and objective is supplemental to existing guidance in currently drafted policies	R. Leite	Board Risk Committee
2.2	September 15, 2021	Updated dates for review; removed list of reference documents; updated policy format to latest template	R. Leite	MRC