

Risk Appetite Statement

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INTRODUCTION

Since its founding in 1863, The Bank has been a stable and consistent banking presence in New York City neighborhoods and surrounding communities. We seek to put the best interests of our customers first and to manage our company prudently and responsibly.

The objective of this risk appetite statement is to provide a clear articulation of The Bank's risk-taking, risk mitigation and risk avoidance, and to define the risk-taking at the aggregate level. The risk appetite statement creates a foundation for effective communication of risk among internal and external stakeholders, helps raise risk awareness across the organization and supports the Board of Directors and the Senior Management in planning, formulating and executing strategic business decisions to achieve the long-term targets of the Bank. Senior management continuously monitor and align the Bank's risk profile with the risk appetite.

OPERATING MODEL AND RISK CULTURE

The Bank is willing to trade away current income for lower risk. The Bank focuses on long-term, not short-term results.

As a result of this focus, the Bank has experienced 29 consecutive years of uninterrupted profitability. Prudent financial and risk management has enabled the Bank to remain solidly profitable, with strong credit quality and minimal non-performing loans. The Bank strives to maintain a balance sheet composed of high-quality loans and securities and capital ratios in excess of all regulatory requirements.

The Bank and Senior Management strive to set clear and consistent expectations for managing risks, including proactively self-identifying risk and control weaknesses and discussing tolerance of risks. Senior Management actively seeks out information about risks, promotes adherence to limits, and encourages open and honest discussion about risks.

Senior Management is clear about their accountability for managing business risks and the responsibilities of those that report to them for managing business risks. Management seeks out risk information in supporting decision-making, and the Bank's view on risk is understood and cascaded to staff. Senior Management encourages timely, efficient and effective communication of risk information across the organization, and risk events are viewed as an opportunity to learn and take appropriate action to ensure the event does not reoccur. No employees of the Bank, at any level, are incentivized for taking on financial risk, or promoting activities or practices that incur financial or operational risk. Retail banking sales incentive is at a branch level not an individual level to further mitigate such risk. The Bank, in aggregate, has a low appetite for risk.

RISK MANAGEMENT FRAMEWORK AND MATERIALITY FRAMEWORK

The Bank has a formal Risk Management Framework that supports a consistent Bank-wide approach to risk management and ensures it is adhered to across the organization. The Framework is a level-1 policy and establishes Bank-wide roles and responsibilities in the context of risk appetite, outlines the standards expected across the organization and formally defines key terms and concepts.

The framework includes a materiality framework (See: Appendix 2), which provides the Bank, including Senior Management and governing bodies, with a consistent mechanism for categorizing the materiality of risks.

RISK APPETITE STATEMENTS

This risk appetite statement considers the most significant risks the Bank is exposed to and provides an outline of the approach to manage these risks. This risk appetite statement is intended to define our appetite for those risks that the Bank takes on proactively and that are within management's control (i.e. credit underwriting, sizing of the liquidity buffer, assessing and strengthening our control environment, as examples), as opposed to exogenous risks which are out of our control (i.e. interest rates, macroeconomic factors, etc.). All strategic plans and business plans for functional areas must be consistent with these statements. Board-level limits associated with specific risk appetite statements are listed by risk-type in Appendix 1.

Exposures, activities and risks identified by the first-, second- or third-lines of defense that potentially position the Bank outside of established risk appetite must be reviewed by and approved by BRC.

Credit Risk

The Bank is exposed to credit risk through its commercial and industrial lending activity, its real estate portfolio, investment portfolio and consumer lending. The Bank has a low appetite for credit risk.

To minimize exposure to credit risk, the Bank follows lending practices which provide significant assurance that loans will be repaid, including:

- Maintaining low loan to value ratios in real estate loan portfolio
- Requiring high debt service coverage ratios in the real estate loan portfolio
- Holding highly rated securities within investment portfolio
- Seeking credit enhancements when appropriate within non-guaranteed credit portfolio including collateral, letters of credit, corporate guarantees and insurance

- Actively managing consumer lending through an experienced Consumer Banking team and aided by the Bank's support teams
- Leveraging Board of Director knowledge of, and experience with, different asset classes and sub-classes

Liquidity Risk

While the Bank maintains a stable retail funding base via its branch network, and has little wholesale or brokered deposits, the Bank is exposed to liquidity risk due to unforeseen obligor defaults, general market events and/or erosion of customer confidence in the Bank or the banking industry at large. The Bank has a low appetite for liquidity risk.

To manage liquidity risk the Bank actively performs a number of activities, including:

- Monitoring against key Liquidity risk metrics (i.e., Wholesale Funding to Total Assets, Cash and Highly Liquid Investment Securities to Total Assets, and Liquidity Stress Testing)
- Maintaining a large portfolio of available-for-sale securities for liquidity purposes
- Maintaining a significant amount of liquid asset positions and an inventory of pledged and pledgeable assets to support contingent liquidity
- Maintaining borrowing capacity from various sources

Interest Rate and Market Risk

The Bank is exposed to interest rate and market risk through its domestic and international lending activity. These risks include exposure to changes in foreign exchange rates, changes in interest rates and matching of assets and liabilities over the maturity time period. The Bank has a moderate appetite for interest rate and market risk.

To manage market risk the Bank actively performs a number of activities, including:

- Hedging all foreign currency risk exposure that is created from assets denominated in foreign currency through the use of currency swaps and forward contracts
- Modeling and monitoring of interest rate exposures and sensitivity through stress test scenarios and models, and ensuring resulting exposures are managed within limits
- Hedging interest rate risks on dollar denominated assets through swap and reverse swap transactions
- Balancing asset portfolio with floating rate transactions when appropriate

Capital Risk

Capital risk is the risk that the Bank does not maintain adequate capital to support its activities and maintain minimum capital requirements. The Bank has a low risk appetite for capital risk. The Bank seeks to exceed minimum regulatory capital requirements through Board mandated capital ratio minimums in excess of associated regulatory minimum requirements. The Bank's low risk credit and investment portfolios helps the Bank to exceed its regulatory and Board minimum capital requirements at all times, including during periods of stress or market dislocations.

To manage capital risk the Bank maintains a modest dividend policy, and actively monitors several key capital adequacy ratios, including:

- Tier 1 Leverage Ratio
- Tier 1 Common Equity Ratio
- Risk-Based Tier 1 Ratio
- Risk-Based Total Ratio

Operational Risk

Operational risk arises from losses caused by defects or failures in its internal processes, people, systems or external events, thus covering risk categories such as fraud, financial crimes compliance, regulatory compliance, technology, cyber, legal and conduct risk. The Bank has a moderate appetite for operational risk in general, and specific appetites for certain individual operational risk categories per below.

To manage operational risk the Bank performs a number of activities and monitors several key metrics, including:

- Promoting strong internal control processes and developing robust technology solutions
- Enhancing control testing, risk and control self-assessments and Compliance risk assessments
- Monitoring operational risk incidents, high risk businesses and associated RCSAs

Anti-money laundering risk can arise from failed processes or systems that inadvertently facilitate money laundering, terrorist financing, fraud, bribery and corruption, and/or market abuse. The Bank has a moderate appetite for anti-money laundering risk.

Sanctions risk can arise from inadvertent exposure to embargoed jurisdictions or entities included on various sanctions lists. The Bank has a low appetite for sanctions risk.

To manage anti-money laundering risk and sanctions risk the Bank actively performs a number of activities, including:

- Active and expanded systematic review of clients and client onboarding
- Enhanced monitoring, screening and investigation by dedicated staff

Regulatory compliance risk can arise from failed policies, processes or systems that result in violations of consumer protection laws or other regulations applicable to the products and services offered by the Bank. The Bank has a low appetite for regulatory compliance risk. The Bank has no appetite for intentional violation of consumer protection laws and aims to have as low as possible inadvertent violations of consumer protection laws. To manage consumer compliance risk the Bank actively performs a number of activities, including:

- Conducting an annual compliance risk assessment to determine inherent and residual regulatory risk related to Bank products and services
- Conducting rigorous monitoring, testing and reviews of Bank products and services involving compliance with consumer protections rules and regulations based upon the results of the compliance risk assessment
- Providing annual employee training programs to raise awareness of regulatory responsibilities and requirements, including targeted training where necessary and appropriate

Cyber and information security risk involves financial loss, disruption or damage to the reputation of an organization as a result of the failure of its information technology systems and practices. The Bank has a moderate appetite for cyber and information security risk. To manage cyber and information security risk the Bank actively performs a number of activities, including:

- Assess Key Risk Indicators (KRI's) through risk quantification process and focus on the metrics that are trending outside the Bank's Risk Appetite Statement
- Actively performing cyber risk assessments of key technology and business practices
- Enhanced monitoring of cyber risks, and driving implementation of corrective actions, including focused training for staff

Third party risk involves potential threat presented to the Bank's employee and customer data, financial information and operations from outside parties that provide products and/or services and have access to privileged systems. The Bank has a moderate appetite for third party risk. To manage third party risk the bank actively performs a number of activities, including:

- Assess vendor risk at time of onboarding
- Perform ongoing risk assessments of vendors

- Monitor vendors for risk issues

The Bank has a long-term goal of operating with a low risk appetite and has initiated several different initiatives to reduce operational risk, including: rolling-out new risk metrics, enhancing processes for evaluating key controls, launching mitigation initiatives focused on data, cybersecurity and suppliers control and embedding additional operational risk discipline within the Bank's business-as-usual activities, however, these need to be embedded longer to impact the Bank's risk profile. As these initiatives develop, new Board Limits will be considered and proposed.

Model Risk

Model risk is the potential for adverse consequences from decisions based on incorrect model outputs, which may stem from issue(s) with one or more of the following: assumptions, choice of theory, code and implementation in information systems, input data, numerical routines, sample design. The Bank has a low appetite for model risk. To manage model risk the Bank actively performs a number of activities, including:

- Conducting model review and validation
- Promoting model change management and monitoring model performance
- Reviewing data quality controls, code integrity and security, and user access

Business Risk

The Bank is exposed to business risk in that financial targets may be missed due to failures to plan, anticipate and adapt its activities, failure to consider and act against potential long-term trends and/or failure to manage planned changes properly. While the majority of risk factors discussed in this risk appetite statement were sized assuming a run rate earnings level of approximately \$100 million, Business Risk, by its nature is forward looking and should be thought of as the Bank's appetite to deviate from its base case financial plan.

As discussed in the Operating Model section of this Risk Appetite Statement, the Bank is willing to trade away current income for lower risk. The Bank focuses on long-term, not short-term results. Consequently, the Bank has moderate appetite for business and earnings risk.

The Bank manages its business and earnings risk through regular review of statements of financial condition, regular strategic planning and all of the aforementioned risk management and risk reporting activities.

Reputational Risk

Reputational risk is the risk of negative publicity or public perception impacting the Bank's reputation, thereby affecting its revenue or access to funding. The Bank has a low appetite for reputational risk. To manage reputational risk the Bank performs several activities, including:

- Monitoring negative social media/press reports about Bank and reviewing/responding to customer complaints and making product/service changes or enhancements to address concerns
- Ensuring substantial structures and guidance is in place for employees, who represent and help protect the Bank's brand and reputation
- Maintaining a positive presence and investing in each of the communities that it serves through relationship building and positive interactions with its branch customers
- Avoiding publicity and media engagement, which limits brand and reputation exposure
- Maintaining clean, well lit branches and signage in good physical condition projecting the stability and strength of the Bank's brand
- Retaining experienced 3rd party professionals to interact with public and media for unforeseen events and emergencies

OPERATING OUTSIDE OF RISK APPETITE

Due to exogenous events (e.g., pandemic) and existing endogenous conditions (e.g., cyber), the Bank can find itself operating outside of its risk appetite. When the Bank discovers it is operating outside of its risk appetite, the breach should be promptly escalated to the Risk Management Department and the CRO, and reported to both the MRC and the BRC. Exposure analysis should include root cause analysis explaining why the breach occurred, corrective actions taken to mitigate the risk, and monitored until risk is within stated risk appetite.

IMPLEMENTATION AND REVIEW

The primary responsibility for the implementation of the risk appetite statement remains with the Risk Management Department.

This risk appetite statement is reviewed at least annually and is approved by the Board of Directors.

APPENDIX 1: Board Risk Limits

The table below lists nineteen Board approved Risk Limits, which are reviewed as part of the annual Risk Appetite ratification process and are representative of the firm's risk appetite. Per Risk Management Framework, Risk limits are thresholds defined in relation to specific risk exposures that aim to contain the risk exposures undertaken by the organization within an acceptable level. Additional limits can be established at the request of either the Board ("Board Limits") and/or Management ("Management Limits").

Board Limits should not be violated, and if breached, should result in mitigating actions to bring the risk back to an acceptable level. Board Limits are monitored by both the risk owners and the second line of defense, and reported at risk management meetings and the BRC.

Credit Risk (Bank-wide)

- ACI Ratio < 40%

Credit Risk (C&I)

- Criticized & Classified C&I Asset Level (% of Total C&I Portfolio) < 10%
- Exceptions - (new transactions over the prior 12 months with exceptions at origination)/(all new transactions over the prior 12 months) < 15%

Credit Risk (CRE)

- Criticized/Classified Asset Level as a % of total CRE portfolio < 10%
- Exceptions - (new transactions over the prior 12 months with exceptions at origination)/(all new transactions over the prior 12 months) < 15%¹
- Concentration Levels within Bank's CRE portfolio < 5x

Liquidity Risk

- Liquidity Stress Test > 100.00%²
- Wholesale Funding / Total Assets ≤ 13.00%
- Cash to Total Assets ≥ 3.00%

¹ For C&I, Guaranteed loans are excluded from both numerator and denominator

² Able to maintain required cash buffer in all scenarios

Interest Rate and Market Risk

- NII (+200bps scenario) $\geq -10.00\%$
- NII (-100bps scenario) $\geq -20.00\%$
- EVE (+200bps scenario) $\geq -20.00\%$
- EVE (-100bps scenario) $\geq -10.00\%$
- Net Open Position for Foreign Currency Exposures $< \$10\text{mm}$

Capital Risk

- Tier 1 Leverage Ratio $\geq 6.00\%$
- Tier 1 Common Equity Ratio $\geq 8.00\%$
- Risk-Based Tier 1 Ratio $\geq 9.50\%$
- Risk Based Total Ratio $\geq 11.50\%$

Operational Risk

- Total Operational Net Losses Rolling 12 Months $\leq \$1\text{mm}$
- % of IT assets with very high and high risk exploitable vulnerabilities $\leq 3\%$
- Failure rate of phishing email tests within the quarter $\leq 10\%$

APPENDIX 2: Materiality Framework

The Materiality Framework provides the Bank, including senior management and governing bodies, with a consistent mechanism for categorizing the materiality of risks. It is defined on an impact and likelihood assessment scale which defines materiality with regards to financial impact, non-financial impact, and likelihood estimate of occurrence. The Materiality Framework is leveraged in the Risk Identification process, Risk Appetite process and other foundational reviews.

Materiality Framework During Normal Situations						
	Frequency		Financial Impact			
	Possible / Adverse Stress	Probable / Baseline Conditions	Profit and Loss Impact	Core Equity Impact (CET-1)	Balance Sheet Impact	
Frequency Definition:	Event may occur over a business cycle (e.g. within 5~10 years)	Event occurs in business-as-usual situations (e.g. every year)				
Impact	VH	VH	>\$5mm (~5% Earnings)	>50 bps	>5%	
	H	H	\$2mm - \$5mm	20 bps - 50 bps	2% - 5%	
	M	M	\$1mm - \$2mm	10 bps - 20 bps	1% - 2%	
	L	L	<\$1mm	<10 bps	<1%	
	Frequency		Non-Financial Impact			
	Possible / Adverse Stress	Probable / Baseline Conditions	Regulatory Impact	Customer Impact	Reputational Impact	
Impact	VH	VH	Significant regulatory scrutiny; potential loss of business license; significant fines	Significant impact / loss of customers; likely litigation / compensation claims; significant loss of deposits	Trustee impact, deterioration of Bank owner's value	
	H	H	Regulatory scrutiny; possible legal action/regulatory fines; likely to result in improvement order	Potential financial detriment to customers / loss of customers	Negative media coverage in general public	
	M	M	Internal compliance issues; possibly reportable to regulator; could result in improvement order	Moderate impact to customers, limited to a relatively small number	Negative coverage within industry	
	L	L	Disciplinary warning; minimal regulator action	Minimal potential for customers impact	Negative press unlikely	
Materiality Framework During Exceptional Situations						
	Frequency		Financial Impact			
	Remote / Severe Stress		Profit and Loss Impact	Core Equity Impact (CET-1)	Balance Sheet Impact	
Frequency Definition:	Event occurs in exceptional situations (e.g. tail risk, beyond 10 years)					
Impact	VH		>\$10mm (~10% Earnings)	>100 bps	>10%	
	H		\$4mm - \$10mm	40 bps - 100 bps	4% - 10%	
	M		\$2mm - \$4mm	20 bps - 40 bps	2% - 4%	
	L		<\$2mm	<20 bps	<2%	