Apple Bank

Established 1863
Member FDIC

122 East 42nd Street
New York, NY 10168
(212) 224-6400

Via Electronic Mail

December 18, 2020

Mr. Steven P. Slovinski
Assistant Regional Director
Federal Deposit Insurance Corporation
350 Fifth Avenue, Suite 1200
New York, NY 10118

Ms. Yolanda Ford
Deputy Superintendent of Banks
New York State Department of Financial Services
One State Street
New York, NY 10004

Re: Information Technology Supervisory Letter (03-2020)

Dear Mr. Slovinski and Ms. Ford:

Apple Bank for Savings ("Apple Bank" or "the Bank") on behalf of itself and its departments (hereinafter, Information Technology and Risk Management) is furnishing this letter and the enclosed material to the Federal Deposit Insurance Corporation ("FDIC") and the New York State Department of Financial Services ("NYSDFS") pursuant to the 2020 Information Technology ("IT") Supervisory Letter, received on November 5, 2020 [#03-2020: IT Target Review] ("IT Letter").[1]

On behalf of Apple Bank's Board of Directors, Senior Management, IT and Risk Management, we express our appreciation for the guidance provided by the examination team and their thoughtful and efficient management in assessing the four components of the Uniform Rating System for Information Technology: Audit, Management, Development and Acquisition, and Support and Delivery. We stand fully committed to all of the enhancements and pro-active improvements discussed in this response.

The Bank has provided a detailed description of Bank management's plan to address the open Matters Requiring Board Attention ("MRBA") that relate to the IT Enterprise-Wide Risk Management Program ("IT-ERMP") and the Violations of Law relating to the Gramm-Leach-Bliley Act (GLBA) and Cybersecurity Preparedness.

We appreciate your time and look forward to further conversations around the Bank's on-going remediation efforts and any additional remedial or preventative measures that may be necessary to fully alleviate the FDIC's and NYSDFS's concerns.

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[1] On November 18, 2020, the IT Letter was presented to Apple Bank's Board of Directors.

MATTERS REQUIRING BOARD ATTENTION

Previous Target Review Matters Requiring Board Attention

MRBA #04/2016 – 2016 IT-ERMP

Corrective Action: Management should enhance the IT risk assessment program and fully develop the IT risk management framework needed to support the IT-ERMP.

Supporting Comments: Former CTO Aditya Kishore completed risk assessments since the 2019 Target Review contracting Wolf and Company. However, the resulting work product was determined to be insufficient by Senior Management. The methodology used applied a standard set of risks and controls to all the individual IT assets resulting in a 1000 page IT Risk Control Self-Assessment ("RCSA") that did not provide identification of control gaps or a prioritized list of action items. Moreover, the proprietary methodology used to measure inherent and residual risks and control effectiveness of each of the IT assets provided no reference for the Bank to evaluate this analysis. Risk assessments should use qualitative measures and provide an easy to understand analysis of Bank-specific IT risks. To ensure the timely identification and mitigation of risk exposures, management should update the risk assessments regularly to address changes in technologies, products, and services. An all-inclusive risk assessment is necessary to accurately identify and assess risk exposure and prioritize mitigation efforts.

Original Management Response: CTO Gupta signed an agreement with ITA Partners, a consulting firm that specializes in Risk and Governance frameworks. ITA Partners will assist the Bank with the IT RCSA process and will work with key stakeholders such as IT and the Risk and Compliance Department. This process is expected to be completed by June 2020. Weekly meetings commenced on March 26, 2020 to discuss the overall IT RCSA process and core functions. The seven IT RCSAs are within the projected timeline with two completed, three underway, and two commencing before June 1, 2020. Bank senior management is reviewing this project on a bi-weekly basis, with the IT-ERMP targeted for approval by the Board Risk Committee in July 2020.

Updated Management Response: We completed an RCSA for IT processes as mentioned during the target examination. In addition to completing an assessment through which we identified processes, their inherent risks and mitigating controls, we also tested the controls to ascertain their saliency. This exercise was completed during June 2020 and a detailed report of the risk assessment was presented to the Management Risk Committee on July 16, 2020 and then to the Board Risk Committee on July 29, 2020. This exercise was done to address both MRBA #04-2016 and SR #07-2016.

The Bank's Internal Audit Department reviewed and validated the RCSA (and the associated controls testing) on August 4, 2020 and submitted the artifacts through the FDIC EFX site for consideration by the examiners. On December 4, during our monthly call with the FDIC, the NYDFS and the Federal Reserve Bank of New York, we were advised that the artifacts submitted by the Bank on August 4, 2020 had been reviewed and the FDIC had determined that the remediation work performed by the Bank met regulatory expectations and both MRBA # 04-2016 and SR #07-2016 were expected to be marked as closed as part of the upcoming Ongoing Monitoring Supervisory Letter.

Previous Violation of Law

NONCONFORMANCE WITH INTERAGENCY GUIDELINES

Corrective Action: The Interagency Guidelines Establishing Information Security Standards (Appendix B to Part 364 of the FDIC Rules and Regulations) establishes certain standards for all insured state, nonmember banks. These standards address the guidelines for developing and implementing administrative, technical, and physical safeguards to protect the confidentiality and integrity of customer information. The institution is in nonconformance with the following sections of Appendix B to Part 364 Safety and Soundness Standards.

Section III C-3 mandates that the bank regularly test the key controls, systems, and procedures of the information security program. The frequency and nature of such tests should be determined by the institution's risk assessment. Tests should be conducted or reviewed by independent third parties, or staff independent of those that develop or maintain the security programs.

IT-related risk assessments, including the GLBA risk assessment, continue to need improvement. Descriptions for key risk and controls are brief and do not adequately support inherent risk ratings, control ratings, or residual risk ratings. Risk Assessments should demonstrate sufficient analysis and prioritization of bank-specific risks, and provide an actionable understanding of the key risks in that area. Further, proper independent testing of the key controls should be completed after risk assessments are finalized. Control testing is a valuable tool for identifying and mitigating gaps and supports management in gaining an overall understanding of the risk exposure to existing, expected, or severe events.

Management Response: CRO Steven Ekert is responsible for the establishment of an appropriate GLBA Risk Assessment Framework, and the identification and testing of the key controls. Negotiations have commenced with ITA Partners to assist management with establishing an effective GLBA Risk Assessment, and establishing and testing the key controls. Management plans to have the GLBA Risk Assessment and the identification and testing of the key controls completed by September 30, 2020. The target date to present the GLBA Risk Assessment to the Management Risk Committee and approval by the Board Risk Committee is October 28, 2020.

Updated Management Response:
We completed the GLBA Risk Assessment as mentioned during the target examination. In addition to completing an assessment through which we identified processes, their inherent risks and mitigating controls, we also tested the controls to ascertain their saliency. This was completed in the first half of October 2020. The detailed report of the Risk Assessment was presented to the Management Risk Committee on October 15, 2020 and then to the Board Risk Committee on October 28, 2020.

The Bank's Internal Audit Department reviewed and validated the GLBA Risk Assessment (and the associated controls testing) on November 4, 2020 and submitted the artifacts through the FDIC EFX site for consideration by the examiners. It is our understanding that at this time, these documents are awaiting regulatory review.

The completion of the GLBA Risk Assessment exercise addresses Apple Bank's previous non-compliance with Part 364 of the FDIC Rules and Regulations.

Current Violation of Law

CYBERSECURITY PREPAREDNESS

Corrective Action: The Cybersecurity Program is not in full conformance with the requirements of NYSDFS Part 500. In January 2020, the Bank hired a new Chief Information Security Officer (CISO), Maksim Tumarinson, who needed to determine the current state of the Bank's cybersecurity program prior to performing the formal certification. When performing the Cybersecurity Certification process for calendar year 2019, CISO Tumarinson identified gaps that were not previously identified in 2018. The gaps and corrective action plans were presented to the Board Risk Committee in March 2020, and sent to the NYSDFS in the Bank's Part 500 Cybersecurity Certification dated May 22, 2020. This certification identified where the Bank failed to fully comply with some of the requirements of the Regulation in sections: 500.02-"Cybersecurity Program"; 500.06–"Audit Trail"; 500.07 "Access Privileges"; 500.09–"Risk Assessment"; 500.12–"Multi Factor Authentication"; and 500.13–"Limitations on Data Retention". Nonconformance with these sections stems primarily from an inaccurate application inventory. This is being remediated by CISO Tumarinson. Furthermore, the noncompliance with 500.14–"Training and Monitoring"; 500.15–"Encryption of Non Public Information"; and 500.16 –"Incident Response Plan", was also self-reported and is in-process of remediation. The Bank has plans in place delineating steps to become fully compliant with Part 500.

Management Response: CISO Tumarinson indicated that the partial nonconformance in sections 500.02; 500.06 – 500.07; 500.09; 500.12 – 500.13 should be fully remediated by September 30, 2020, and nonconformance with 500.14 - 500.16 will be remediated, and be brought into full compliance by December 31, 2020.

Updated Management Response:
As of December 2020, the Bank remains in partial nonconformance in the following sections of NYSDFS Part 500: 500.07 (Access Privileges), 500.09 (Risk Assessment), 500.13 (Limitation on data retention), 500.14 (a) (Training and Monitoring) and 500.15 (a) (Encryption of nonpublic information). Information Security did address the requirements of the following sections within NYSDFS Part 500: 500.02 (Cybersecurity Program), 500.06 (Audit Trail), 500.12 (Multifactor Authentication) and 500.16 (Incident Response plan).

The Bank is expecting to come into full compliance by the end of Q4 2021. Compliance with nonconforming sections will follow these dates:

500.07 - Access Privileges target date: Q4 2021
500.09 - Risk Assessment target date: Q2 2021
500.13 - Limitation on data retention target date: The Bank is currently undertaking multi-step improvements related to data inventory, classification, and retention policy/schedule implementation. The Bank is expecting to have those referenced steps completed by the end of Q2 2021. The Bank then expects that the appropriate and secure disposal steps will take place during Q3 2021 and Q4 2021.
500.14 (a) - Training and Monitoring target date: Q1 2021
500.15 (a) - Encryption of nonpublic information target date: Q4 2021

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If you have any questions and/or require additional information, please contact Steve Ekert at (646) 949-8696, Max Tumarison at (212) 224-6474 or Debi Gupta at (929) 529-8623.[2]

Very truly yours,

Debi P Gupta

Digitally signed by Debi P Gupta
Date: 2020.12.18 14:39:08 -05'00'

Debi Gupta
Chief Technology Officer

Max Tumarinson

Max Tumarinson
Chief Information Security Officer

cc: Amanda Dubuque, Federal Deposit Insurance Corporation
Dan Devlin, Federal Deposit Insurance Corporation
Maxine Turner, New York State Department of Financial Services
Reena Mathew, New York State Department of Financial Services
Steve Ekert, Apple Bank for Savings
Greisana Muhaj, Apple Bank for Savings

[2] This letter and the included attachment (the "Confidential Information") are being provided to the FDIC and NYSDFS as part of their on-going supervision and examination of the Bank. As a result, pursuant to the Freedom of Information Act ("FOIA") (5 U.S.C. § 552(b)(8)) and Part 309 of the FDIC's Rule (12 CFR § 309.5(g)(8)) and pursuant to Article 6 of the New York Public Officers Law and Section 36.1 of the New York Banking Law, the Confidential Information should be treated as Confidential Supervisory Information and exempt from public disclosure. Accordingly, the Bank requests that no part of the Confidential Information be provided to the public as part of any FOIA request. If the FDIC or NYSDFS should choose to release any part of the Confidential Information, the Bank requests that it be notified in advance, so that it has adequate time to take any steps necessary to prevent the public release of the Confidential Information.

EXHIBIT A
Corporate Secretary Certificate

(See line 224 for the IT Supervisory Letter acknowledgment)

Board of Directors of

Apple Financial Holdings, Inc. and Apple Bank for Savings

Meeting Minutes

November 18, 2020

A regularly scheduled meeting of the Boards of Directors (the “Boards”) of Apple Financial Holdings, Inc. (“AFHI” or the “Corporation”) and Apple Bank for Savings (“Apple Bank”, “ABS”, “Apple” or the “Bank”) was held concurrently on November 18, 2020.

The following members of the Boards attended the meeting: Kevin Barnard, Stacy Brandom, Steven Bush, Richard Czaja, Domenick Esposito, Robert Hasday, Fran Jacobs, Andrew Kaufman, Arthur Kornberg, Stuart Kotler, James Naber, Stewart Stern, Gregg Wolpert and Susi Yu.

The following employees of Apple Bank were present for all or part of the meeting: Marie Amerasinghe (FVP, Head of Corporate Governance), Holly Amorosana (FVP, Chief Privacy Officer), Anna Bidwell (VP, Corporate Governance), Jonathan Brickman (EVP, Finance & Treasury), Walter Cosby (Legal Consultant), Elaine Dovas (FVP, CRA Officer), Steve Ekert (EVP, Chief Risk Officer), Debi Gupta (EVP, Chief Technology Officer), Jeffrey Herbert (EVP, General Counsel), Greisana Muhaj (VP, Head of Regulatory Exams & Relations), Varun Sarna (FVP, Corporate Planning & Strategy), Max Tumarinson (SVP, Chief Information Officer), and Andrea Gallinucci-Martinez (AVP, Corporate Governance).

Ellen Polansky and Kevin Zerrusen from Ernst & Young were also present for part of the meeting.

Mr. Bush served as Chairman of the meeting. Mr. Gallinucci-Martinez took the minutes of the meeting.

Mr. Bush called the meeting to order at 9:30 a.m. and welcomed the participants.

CORPORATE GOVERNANCE AND SECRETARIAL MATTERS

Minutes

Mr. Herbert referred to the minutes from the prior meeting of the Boards held on October 28, 2020, a copy of which is included in the distributed materials. After discussion, upon motion duly made and seconded, the Boards approved the minutes of the meeting held on October 28, 2020.

Mr. Herbert then referred to the following meeting minutes of the Board Committees, which are included in the distributed materials: (i) Human Resources and Compensation Committee, held on May 26, 2020; (ii) Corporate Governance and Nominating Committee, held on June 16, 2020; (iii) Investment & Loan Committee, held on August 25, 2020 (as amended); September 25, 2020; September 29, 2020; and October 6, 2020; (iv) Financial Crimes Compliance Committee, held on September 29, 2020; (v) Real Estate Loan Committee, held on September 29, 2020; and (vi) Risk Committee, held on September 30, 2020.

The Boards acknowledged receipt of the distributed minutes of the Board Committees.

2021 Board and Board Committee Meeting Calendar

Mr. Herbert referenced the 2021 Board and Board Committee Meeting Calendar ("2021 Schedule") included in the meeting materials and reported that the 2021 Schedule was approved by the Board Corporate Governance and Nominating Committee ("CGNC") at its November 10, 2020 meeting. He reviewed the primary changes from last year's schedule which included: (i) moving the Board Meeting to the last meeting of each monthly Board cycle to allow for discussion on materials items that may be raised at Committee meetings leading up to the Board meeting; (ii) a reduction in the number of certain Board Committee meetings; and (iii) increasing the time of Operations & Technology Committee meetings to two hours. Mr. Herbert added that an additional Human Resources and Compensation Committee Meeting has been scheduled in February 2021 to review compensation matters and that additional Board and Board Committee meetings will be added to the schedule on an as-needed basis.

After discussion, the Boards acknowledged the 2021 Board and Board Committee Meeting Calendar as presented.

Directors' Compensation

Mr. Herbert reviewed the current compensation package for Directors included in the meeting materials. He reported that management performed a public company peer analysis to determine how the Bank's current compensation package for Directors compares to the ones offered by other comparable banks. He added that as a result of the review and given the current climate as a result of the pandemic, it is recommended that there should not be any adjustments to the director compensation package for 2021. Mr. Herbert noted that on November 10, 2020 the CGNC reviewed the proposal to not adjust the current director compensation for 2021 and approved recommending the proposal to the full Board.

After discussion, upon motion duly made and seconded, the Boards approved the proposed Directors' compensation package.

Amendments to AFHI Bylaws

Mr. Herbert referenced the proposed amended bylaws included in the distributed materials and noted that on November 10, 2020 the CGNC approved the revised bylaws for recommendation to the full Board. He explained that the purpose of the proposed amendments is to reflect changes in the New York Business Corporation Law which enable AFHI to implement means of electronic communications facilitating shareholders and proxyholders' remote attendance to meetings. Mr. Herbert added that the Apple Bank Bylaws were also reviewed and did not require changes at this time.

After discussion, upon motion duly made and seconded, the Corporation's Board approved the proposed amendments to AFHI bylaws.

General Authority

Mr. Herbert requested that the Boards grant full authority to the officers of AFHI and the Bank to act in furtherance of the resolutions adopted at the meeting. Upon motion duly made, and seconded, the Boards adopted the following resolution:

> **RESOLVED, that the officers of the Corporation and the Bank be, and each of them, acting with full authority without the others, hereby is, authorized to execute and deliver such other agreements, documents, and instruments, and to do all such other acts and things, as in the judgment of the Chairman of the Boards shall be necessary or desirable to carry out the purposes of the resolutions adopted at this meeting, such approval, and the authority therefore from the Corporation and the Bank, to be evidenced conclusively by the execution and delivery thereof or the taking of any such action.**

CEO MATTERS

CEO's Pandemic Update

Mr. Bush referred to the Executive Pandemic Risk Dashboard included in the distributed materials. He provided a high level overview of the pandemic related risks identified by management in the following areas of the Bank: Risk Management; Information Technology; Legal; Compliance; Human Resources; Consumer Banking; Facilities Management; Liquidity and Treasury; Commercial Real Estate and Commercial and Industrial Lending; and Financial Crimes Compliance.

Mr. Bush reported that COVID-19 cases are rising in the NYC-area and new restrictions may lie ahead. He noted that the Bank has about 50 staff members with positive COVID-19 tests or in Bank-requested quarantine, and four branches are closed (Boro Park, Cedarhurst, East Hampton and Jamaica). He added that IT infrastructure assessments are scheduled to test the remote technology framework and prepare for another surge in the number of remote users. He added that the remote work environment has posed challenges for the Customerline Department, which will now move from a two shift schedule to a three shift schedule to protect employees and improve resiliency through small team cohorts.

Next, Mr. Bush reported that the Bank is liquidity-heavy as loan transactions that were expected to take place have been delayed. On the export credit front, he noted that the delivery of Dreamliner aircraft have been delayed due to the remediation of defects in the manufacturing process and an argument over responsibility for tariffs on European buyers of American Boeing aircraft. He added that Airbus has also experienced manufacturer-related delivery delays on new narrowbody aircraft.

Mr. Bush reported that the Bank will be running off brokered CDs as they mature as long as the liquidity position is excessive. He noted that around the country banks are seeing deposits swell without great investment options, similarly to what Apple is experiencing in the current environment. He also noted that short-term interest rates are stable, but the long-end has pushed somewhat higher on positive reports of vaccine results and the potential for more economic stimulus. He added that commercial mortgage loans with COVID-19 modifications are largely exiting the deferral periods with no new requests, noting that Apple appears to be doing better than other peer banks on this front. However, Mr. Bush explained that the current situation is subject to changes as the COVID-19 situation progresses. He noted that case counts in New York remain well below many other areas, but are clearly increasing and additional restrictions on economic activity may be coming. Discussion ensued.

Mr. Bush noted that on the aviation side, export credit agencies and other third-party credit enhancers are performing as expected and covering borrower shortfalls. He reported that Norwegian Air has recently been denied a Norwegian government loan, which was a necessary requirement for its survival strategy, and noted that the Bank's credit is covered by the AFIC insurance consortium. He added that SAS obtained the loan it requested, which shows the existence of a bitter fight happening behind the scenes as carriers try eliminate their post-COVID competition. He reported that with the exception of a short-term deferral for Spirit Airlines, none of the other US airline borrowers have requested any kind of relief. Mr. Bush commented that Thai Airways and LATAM bankruptcy proceedings are continuing their slow course without notable developments other than the completion of the formal claims filing process. Mr. Bush reported that the Bank has approximately a $30M total GE receivables exposure to these entities. He noted that these two positions represents the greatest short-term risk of credit loss in the loan portfolio and added that General Electric and Apple are in ongoing dialogue on significant developments. A discussion ensued.

Next, Mr. Bush reported that as of today, the Boeing 737 MAX has been cleared to fly again by the Federal Aviation Administration and the European and other agencies are expected to follow suit. He noted that in the event that Norwegian Air files for bankruptcy, having a certified aircraft will clearly assist

AFIC in any remarketing effort that might be necessary. He added that TSA Airlines screenings remain flat at around 40% of the prior year, as the COVID-19 outbreaks around the country have reduced air travel. A discussion ensued.

CEO's Report on Other Matters

Mr. Bush referenced the articles included in the distributed materials and provided a high level summary, noting that (i) certain financial and banking regulations might be affected by the Democratic victory in the 2020 Presidential election but the balanced position in Congress may forestall many items requiring legislative action; (ii) increasing reports of potential fraud in the Paycheck Protection Program are emerging; (iii) Norwegian Air's future is potentially in jeopardy after further governmental support was rejected; (iv) rising coronavirus numbers are threatening to derail economic progress; and (v) the lack of a financial stimulus plan before year-end could further impact the US economy in light of rising COVID-19 cases. He also reviewed Cushman & Wakefield's Global Office Impact Study & Recovery Timing report and noted that the magazine Modern Counsel published an article on the Bank's Legal Department, which was included in the distributed materials.

Mr. Bush referenced the current Board Succession Plan included in the distributed materials, noting that it was reviewed at the CGNC meeting on November 10, 2020 and no changes were recommended. Mr. Bush reported that in November the CGNC also reviewed (i) the proposed questionnaires for the 2020 Board self-evaluation process, which will be rolled out in January 2021, (ii) a list of potential Board training topics for 2021, and (iii) the credentials of Julia Valentine, a potential IT Advisor for the Operations & Technology Committee. He noted that Ms. Valentine will meet with the O&T Committee members in executive session later in the day. He further noted that, assuming discussions with the O&T Committee go well, a copy of Ms. Valentine's resume will be included in next month's Board package for reference. Discussion ensued.

Regulatory Update/Correspondence

Mr. Bush reviewed the regulatory updates and correspondence received since the last meeting of the Boards and included in the distributed materials. He noted that the New York State Department of Financial Services ("DFS") recently published its Guidance on Climate Change and Financial Risks, which was included in the distributed materials for informational purposes.

Next, Mr. Bush provided an update on the Bank's opening of new branch locations in Larchmont and New City, reporting that both applications received regulatory approval.

Mr. Bush reported that the Bank received a letter from the DFS and the Federal Deposit Insurance Corporation ("FDIC") dated November 5, 2020 ("IT Target Supervisory Letter") that summarized the findings of its April 27, 2020 IT Target Review. He reviewed the findings included in the IT Target Supervisory Letter with the Boards. A discussion ensued and the Boards acknowledged receipt of the 2020 IT Target Supervisory Letter.

Mr. Bush reported that the 2020 BSA examination is currently underway and that the 2020 Corporate Governance exam is reaching its final phase. He noted that a detailed report of the current regulatory examinations will be provided by Ms. Muhaj later in the meeting.

ELECTIONS AND PROMOTIONS

Mr. Bush referred to the distributed materials and presented John Pinna as a potential candidate for election for the position of First Vice President – Digital Operations Officer, Branch Operations. Mr. Bush referred to Mr. Pinna's resume, which was included in the meeting materials, and reviewed highlights relating to Mr. Pinna's professional experience.

After discussion, upon motion duly made and seconded, the Boards approved the hiring of Mr. Pinna, as presented.

FINANCIALS

October 2020 Financials

Income Statement

Mr. Brickman noted that the Bank reported a net income of $3.9M in October 2020. He added that the Bank's year-to-date net income was $35.8M.

Mr. Brickman reported that the two most notable items for October were that (i) net interest income was at $24.2M, which marks the highest month this year; and (ii) the Bank experienced a $0.6M loss related to mark-to market adjustments. He noted that net interest margin remained stable month-over-month at 1.84%, so the higher net interest income was attributable to the larger balance sheet.

Balance Sheet

Mr. Brickman reported that the Bank's total assets grew month-over-month by $217M to $16.55B at the end of October, driven primarily by an increase in retail deposits of $166M.

Asset Quality

Mr. Brickman reported that non-performing assets ("NPAs") were higher than historical levels and increased to $46M at the end of October, driven by (i) $23M linked to Thai Airways, (ii) $7M linked to CFM/LAN Chile, and (iii) $15M related to government guaranteed WBC loans awaiting the finalization of pending deferral agreements. He added that the "non-guaranteed" NPAs are close to $30M.

Mr. Hasday asked whether losses are likely to arise from the $30M "non-guaranteed" NPAs. Referring to the prior discussion, Mr. Bush noted that the picture will become clearer as certain borrowers' bankruptcy proceedings progress. He added that the Bank has already allocated approximately $15M in reserves for these "non-guaranteed" NPAs. He further noted that the outcomes are likely to be fairly binary and if the claims are entirely rejected in bankruptcy, the loss would be Apple's largest since the approximately $86mm write-down of Freddie/Fannie preferred stock in 2008. He added that the remaining classified assets are considerably less concerning at this point.

Liquidity

Mr. Brickman reported that deposits continue to grow and the Bank has ample liquidity of $1.4B. He noted that year-to-date retail deposits have increased to $639M and the cost of deposits, which is currently at 0.67%, continues to decline.

Capital

Mr. Brickman reported that the (i) tier 1 leverage ratio was 7.1%; (ii) tier 1 risk-based ratio was 13.1%; (iii) the total risk-based capital ratio was 13.8%; and (iv) the common equity tier 1 leverage ratio was 11.5%.

Part 252 Report

Mr. Bush delivered the Part 252 Report as required by New York State Banking Law to the Boards, referencing the relevant pages in the meeting materials. The Boards accepted the Part 252 Report, as presented.

Ms. Dovas joined the meeting.

COMMUNITY REINVESTMENT ACT MATTERS

CRA Policy

Ms. Dovas referenced the updated CRA Policy included in the materials. She reviewed the main elements of the policy and the proposed changes which included (i) updating the asset figures that trigger a CRA exam; (ii) providing more details regarding the labeling and identification of community development types for community development loans; (iii) describing CRA data sources; and (iv) the inclusion of a guide to CRA grants. Ms. Dovas noted that the Management CRA Committee reviewed the revised CRA policy and recommended its approval to the Boards. A discussion ensued.

After discussion, upon motion duly made and seconded, the Boards approved the revised CRA Policy, as presented.

CRA Training

Ms. Dovas referenced her presentation included in the distributed materials and reviewed its content, including (i) highlights of the 2020 CRA Exam and its components, (ii) the strengths and challenges of the Bank's CRA Program, and (iii) the recently proposed regulatory changes to the CRA framework, noting that CRA might become an area of heightened scrutiny under the upcoming Biden administration. A discussion ensued. Mr. Bush reviewed the financial actions taken by the Bank with respect to CRA.

Ms. Dovas exited the meeting. Ms. Muhaj joined the meeting.

PROGRAM UPDATES

Regulatory Exam Management Update

Ms. Muhaj referenced her presentation included in the distributed materials and reviewed its content, including the (i) status of the 2020 exam and review schedule; (ii) current key regulatory actions; and (iii) exam metrics, which include changes in the status of regulatory findings regarding the month-over-month variations in the number of ad-hoc and continuous monitoring requests. Further discussion ensued.

Ms. Muhaj exited the meeting. Mr. Sarna joined the meeting.

<u>Peer Review and Strategic Plan Update</u>

Mr. Brickman referred to the materials and provided a summary of key industry themes in Q3 2020 across the following categories: (i) net interest income, (ii) asset quality, (iii) operating expenses, (iv) fee income, (v) merger and acquisitions, and (vi) stock buyback programs. He reviewed the financial institutions that joined the Bank's peer group since the prior quarter and highlighted the most significant management changes related to peer banks as well as metrics associated with branches and profitability. Mr. Sarna reviewed the year-to-date market performance, noting that financial stocks have significantly underperformed compared to the broader market in 2020 given concerns of a prolonged low interest rate environment and COVID-19 related asset quality issues. Mr. Sarna reviewed the market's performance since Election Day, noting that the broader market has rallied on news of a Biden-Harris White House and a likely divided Congress, and the news of a vaccine from Pfizer has extended gains and significantly lifted sectors more heavily impacted by COVID. A discussion ensued.

Mr. Sarna reviewed the Q3 2020 peer analysis financial summary, noting that Apple retains its top quartile position for liquidity and asset quality, in line with the Bank's business model and risk appetite. A discussion ensued.

Next, Mr. Brickman provided a 2021-2023 Strategic Plan ('Plan") update. He reported that the Plan will largely resemble the format of the 2020-2022 Strategic Plan with a few changes. He noted that he envisions (i) including a section that considers the COVID pandemic-related risks, how the Bank responded during the pandemic, and the pandemic's effect on the future operating environment; (ii) separating out the IT strategic plan which now is its own stand-alone document, and including only a high-level summary in the Plan; (iii) with respect to Consumer Banking, focusing more on branch leases, new branch and relocation opportunities; (iv) with respect to Risk Management, focusing more on a bank-wide risk assessment, rather than a review of the department, incorporating the top risks and improving integration with the Risk Appetite Statement; (v) with respect to Financial Projections, including primary levers that include asset growth, change in asset composition, interest rates, provision expenses, and expense management, with asset growth and asset composition governed by capital and appropriate lending opportunities. He noted that his team is in the process of meeting with members of the executive team to review their respective area's projected activity and forecasts for the three year period and financial projections are currently being formulated. He further noted that the 2021-2023 Strategic Plan is scheduled to be reviewed by the Executive Management Steering Committee at its January 28, 2021 meeting and will be discussed with the Board at the scheduled February 8, 2021 meeting. Discussion ensued.

Mr. Bush noted the strategic importance of developing a digital banking infrastructure capable of attracting younger and more technology-oriented clients and rejuvenating the Bank's overall customer base. He added that many of the technology projects underway at the Bank are aimed at this objective, including the core conversion to IBS, which will enable interfaces to third-party software applications far more easily than MISER. A discussion ensued as to Management's initiatives on the technology front and the enhanced opportunities for innovation linked to the IBS core platform that will become available in 2022. The Boards also discussed the prospective consulting fees and operating expenses that will be included in the Plan.

Mr. Sarna exited the meeting. Ms. Amorosana, Mr. Gupta, Mr. Tumarinson, Ms. Polansky and Mr. Zerrusen joined the meeting.

BOARD TRAINING

Cybersecurity Training

Mr. Bush introduced Ms. Polansky and Mr. Zerrusen from Ernst & Young ("E&Y"), noting that Mr. Zerrusen is a Managing Director in the Consulting practice of E&Y and an expert in a wide range of cybersecurity matters, including security incident response, technology risk governance, and cybersecurity metrics.

Mr. Zerrusen referenced the training deck included in the distributed materials and reviewed its content. In particular, he analyzed the National Association of Corporate Directors' five principles on cyber-risk oversight as well as some of the most important cybersecurity risks and issues that currently affect the financial industry, including an explanation of how the current COVID-19 environment accelerated the magnitude and frequency of cyber threats.

Next, Mr. Zerrusen reviewed Apple Bank's cybersecurity risk profile and the potential impact of a significant cybersecurity incident on the Bank from a financial, operational, legal, regulatory and reputational perspective. A discussion ensued as to the cybersecurity risk management and mitigation strategy adopted by the Bank. Mr. Zerrusen noted that the identification of reliable metrics is a key challenge in the industry and noted that even an optimal use of metrics does not guarantee total security as weaknesses often become apparent only after a successful cyberattack has been discovered. He added that as attackers evolve, defenses need to evolve and constant improvement and monitoring is recommended.

EXECUTIVE SESSION

The Boards moved to executive session to discuss the status of the BSA civil money penalty matter.

ADJOURNMENT

There being no further business, upon motion duly made, and seconded, the meeting was adjourned at 12:40 p.m.

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Jeffrey Herbert