

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022

or

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

For the transition period from _____ to _____
Commission file number: **001-38282**

METROPOLITAN BANK HOLDING CORP.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

13-4042724

(I.R.S. Employer Identification Number)

99 Park Avenue, New York, New York

(Address of principal executive offices)

10016

(Zip Code)

Registrant's telephone number, including area code: **(212) 659-0600**

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

Title of each class	Ticker Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value	MCB	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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

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

Large accelerated filer
Non-accelerated filer
(Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on June 30, 2022, as reported by the New York Stock Exchange, was approximately \$709.9 million.

As of February 23, 2023, there were issued and outstanding 10,961,091 shares of the Registrant's Common Stock.

DOCUMENTS INCOPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's Annual Meeting of Stockholders (Part III).

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ACL	Allowance for Credit Losses	FHLB	Federal Home Loan Bank
AFS	Available-for-sale	FHLBNY	Federal Home Loan Bank of New York
ALCO	Asset Liability Committee	FRB	Federal Reserve Bank
ALLL	Allowance for loan and lease losses	FRBNY	Federal Reserve Bank of New York
ASC	Accounting Standards Codification	FX	Foreign exchange
ASU	Accounting Standards Update	GAAP	U.S. Generally accepted accounting principles
BaaS	Banking-as-a-Service	HTM	Held-to-maturity
Bank	Metropolitan Commercial Bank	IRR	Interest rate risk
BHC Act	Bank Holding Company Act of 1956, as amended	ISO	Incentive stock option
BSA	Bank Secrecy Act	JOBS Act	The Jumpstart Our Business Startups Act
C&I	Commercial and Industrial	LIBOR	London Inter-Bank Offered Rate
CARES Act	Coronavirus Aid, Relief, and Economic Security Act	LTV	Loan-to-value
CECL	Current Expected Credit Loss	MBS	Mortgage-backed securities
CFPB	Consumer Financial Protection Bureau	NYSDFS	New York State Department of Financial Services
Company	Metropolitan Bank Holding Corp.	OCC	Office of the Comptroller of the Currency
Coronavirus	COVID-19	OTTI	Other-than-temporary impairment
CRA	Community Reinvestment Act	PPP	Paycheck Protection Program
CRE	Commercial real estate	PRSU	Performance Restricted Share Units
CRE Guidance	Commercial Real Estate Lending, Sound Risk Management Practices	ROU	Right of Use
DIF	Deposit Insurance Fund	SEC	U.S. Securities and Exchange Commission
EGC	Emerging Growth Company	SOFR	Secured Overnight Financing Rate
EVE	Economic value of equity	SRC	Smaller reporting company
FASB	Financial Accounting Standards Board	TDR	Troubled debt restructuring
FDIC	Federal Deposit Insurance Corporation	USD	U.S. Dollar

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10 K may contain certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which may be identified by the use of such words as “may,” “believe,” “expect,” “anticipate,” “consider,” “should,” “plan,” “estimate,” “predict,” “continue,” “probable,” and “potential” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of Metropolitan Bank Holding Corp. (the “Company”) and its wholly-owned subsidiary Metropolitan Commercial Bank (the “Bank”), and the Company’s strategies, plans, objectives, expectations and intentions, and other statements contained in this Annual Report on Form 10-K that are not historical facts. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company’s control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Factors that may cause actual results to differ from those results expressed or implied include those factors listed under Item 1A. “Risk Factors” and as described in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report. In addition, these factors include but are not limited to:

- the continuing impact of the COVID-19 pandemic on our business and results of operation;
- an unexpected deterioration in our loan or securities portfolios;
- unexpected increases in our expenses;
- different than anticipated growth and our ability to manage our growth;
- increases in competitive pressures among financial institutions or from non-financial institutions, which may result in unanticipated changes in our loan or deposit rates;
- changes in the interest rate environment, which may reduce interest margins or affect the value of the Company’s investments;
- the impact of interest rate reform that applies to transactions that reference LIBOR;
- changes in deposit flows or loan demand, which may adversely affect the Company’s business;
- changes in accounting principles, policies or guidelines may cause the Company’s financial condition or results of operation to be reported or perceived differently;
- general economic conditions, including unemployment rates, either nationally or locally in some or all of the areas in which the Company does business, or conditions in the securities markets or the banking industry being less favorable than currently anticipated;
- potential return to recessionary conditions, including the related effects on our borrowers and on our financial condition and results of operations;
- unanticipated adverse changes in our customers’ economic conditions;
- inflation, which may lead to higher operating costs;
- declines in real estate values in the Company’s market area, which may adversely affect its loan production;
- legislative, tax or regulatory changes or actions, which may adversely affect the Company’s business;
- an unexpected adverse financial, regulatory, legal or bankruptcy event experienced by our fintech partners;

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- technological changes that may be more difficult or expensive to implement than anticipated;
- system failures or cyber-security breaches of our information technology infrastructure or those of the Company's third-party service providers or those of our fintech partners for which we provide global payments infrastructure;
- the failure to maintain current technologies and to successfully implement future information technology enhancements;
- the effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries;
- the costs, including the possible incurrence of fines, penalties, or other negative effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party, and which may adversely affect our results;
- an unanticipated loss of key personnel or existing customers;
- unanticipated increases in FDIC costs;
- the current or anticipated impact of military conflict, terrorism or other geopolitical events;
- the ability to attract or retain key employees;
- successful implementation or consummation of new business initiatives, which may be more difficult or expensive than anticipated;
- the timely and efficient development of new products and services offered by the Company or its strategic partners, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value and acceptance of these products and services by customers;
- changes in consumer spending, borrower or savings habits;
- the risks associated with adverse changes to credit quality, including changes in the level of loan delinquencies, non-performing assets and charge-offs and changes in the estimates of the adequacy of the ALLL;
- difficulties associated with achieving or predicting expected future financial results; and
- the potential impact on the Company's operations and customers resulting from natural or man-made disasters, wars, acts of terrorism, cyber-attacks and pandemics.

The Company's ability to predict results or the actual effects of its plans or strategies is inherently uncertain. As such, forward-looking statements can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect conditions only as of the date of this filing. Forward-looking statements speak only as of the date of this document. The Company undertakes no obligation to publicly release the results of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements, except as required by the law.

PART I

Item 1. Business

The Company is a bank holding company headquartered in New York, New York and registered under the BHC Act. Through its wholly owned bank subsidiary, Metropolitan Commercial Bank, a New York state-chartered bank, the Company provides a broad range of business, commercial and retail banking products and services to small businesses, middle-market enterprises, public entities and affluent individuals primarily in the New York metropolitan area. The Company's founding members, including its Chief Executive Officer, Mark DeFazio, recognized a need in the New York metropolitan area for a solutions-oriented, relationship bank focused on middle market companies and real estate entrepreneurs whose financial needs are often overlooked by larger financial institutions. The Bank was established in 1999 with the goal of helping these under-served clients build and sustain wealth. Its motto, "The Entrepreneurial Bank," is a reflection of the Bank's aspiration to develop a middle-market bank that shares the same entrepreneurial spirit as its clients. By combining the high-tech service and relationship-based focus of a community bank with an extensive suite of financial products and services, the Company is well-positioned to continue to capitalize on the significant growth opportunities available in the New York metropolitan area. See the "Glossary of Common Terms and Acronyms" for the definition of certain terms and acronyms used throughout this Form 10-K.

In addition to traditional commercial banking products, the Company offers corporate cash management and retail banking services, and is an established leader in BaaS through its Global Payments Group ("global payments business"). The Global Payments Group provides global payments infrastructure to its fintech partners, which includes serving as an issuing bank for third-party debit card programs nationwide and providing other financial infrastructure, including cash settlement and custodian deposit services. The Company has developed various deposit gathering strategies, which generate the funding necessary to operate without a large branch network. These activities, together with six strategically located banking centers, generate a stable source of deposits and a diverse loan portfolio with attractive risk-adjusted yields. As of December 31, 2022, the Company's assets, loans, deposits, and stockholders' equity totaled \$6.3 billion, \$4.8 billion, \$5.3 billion and \$575.9 million, respectively.

As a bank holding company, the Company is subject to the supervision of the Board of Governors of the Federal Reserve System. The Company is required to file with the FRB reports and other information regarding its business operations and the business operations of its subsidiaries. As a state-chartered bank that is a member of the FRB, the Bank is subject to FDIC regulations as well as primary supervision, periodic examination and regulation by the NYSDFS as its state regulator and by the FRB as its primary federal regulator.

Amendments to the SEC's Smaller Reporting Company Definition

In 2018, the SEC adopted amendments to its regulations that raised the thresholds by which entities would be defined as an SRC, which permits reduced disclosure and later filing deadlines. Under the definition of an SRC, a company with less than \$250 million of public float or less than \$100 million in annual revenues and either no public float or a public float that is less than \$700 million will be eligible to provide reduced disclosures. A reporting company will determine whether it qualifies as an SRC annually as of the last business day of its second fiscal quarter. A company must reflect its SRC status in its Form 10-Q for the first fiscal quarter of the next year.

The Company qualified as an SRC for the 2021 fiscal year due to having a public float of less than \$250 million as of June 30, 2020 and elected to take advantage of certain exemptions allowed as an SRC. However, the Company exceeded the \$250 million public float threshold as of June 30, 2021 and accordingly no longer qualified as an SRC beginning with its Form 10-Q for the quarter ending March 31, 2022. However, until December 31, 2022, the Company still qualified as an EGC, which continued to allow certain reduced disclosure, accounting and corporate governance requirements. See "*Business – Emerging Growth Company Status*".

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Available Information

The SEC maintains an internet site, www.sec.gov, that contains the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments thereto, and other reports electronically filed with the SEC. The Company makes these documents filed with the SEC available free of charge through the Company's website, www.mcbankny.com, by clicking the Investor Relations tab and selecting "SEC Filings" under the "Filings & Financials" tab. Information included on the Company's website is not part of this Annual Report on Form 10-K.

Market Area

The Company's primary market includes the New York metropolitan area, specifically Manhattan and the outer boroughs, and Nassau County, New York. This market is well-diversified and represents a large market for middle market businesses, (defined as businesses with annual revenue of \$5 million to \$200 million). The Company's market area has a diversified economy typical of most urban population centers, with the majority of employment provided by services, wholesale/retail trade, finance/insurance/real estate, technology companies and construction. A relationship-led strategy has provided the Company with select opportunities in other U.S. markets, with a particular focus on South Florida. In addition, through its Global Payments Group, the Company issues prepaid cards for nationwide card programs managed by third-party program managers. Further, the Company administers global payment settlements for its fintech partners globally.

The Company operates six banking centers strategically located within close proximity to target clients. There are four banking centers in Manhattan, one in Brooklyn, New York, and one in Great Neck, Long Island. The 99 Park Avenue banking center, adjacent to the Company headquarters, is located at the center of one of the largest markets for bank deposits in the New York Metropolitan Statistical Area due to the abundance of corporate and high net worth clients. The Manhattan banking centers are centrally located in the heart of neighborhoods notably associated with specific business sectors, with which the Company has strong existing relationships. The Brooklyn banking center is in the active Boro Park neighborhood, which is home to many small- and medium-sized businesses, and where several important existing lending clients live and work. The banking center in Great Neck, Long Island represents a natural extension of the Company's efforts to establish a physical footprint in areas where many of its existing and prospective commercial clients are located, and also serves as a central hub for philanthropic and community events. The Company also has a loan production office in Miami, Florida, an administrative office in Lakewood, New Jersey, and a property in Louisville, Kentucky that is utilized as office space for our Global Payments Group.

Competitors

The bank and non-bank financial services industry in the Company's markets and surrounding areas is highly competitive. The Company competes with a wide range of regional and national banks located in its market areas as well as non-bank commercial finance companies on a nationwide basis. The Company faces competition in both lending and attracting funds as well as merchant processing services from commercial banks, savings associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, non-bank lenders, government agencies and certain other non-financial institutions. Many of these competitors have higher lending limits and more assets, capital and resources than the Company, and may be able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual customers. Competition for deposit products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

Accessibility, tailored product offerings, disciplined underwriting and speed of execution enable the Company to distinguish itself in the market of its target clients, which the Company views as under-served by today's global financial services industry. Establishing banking centers in close proximity to a "critical mass" of its clients has advanced the Company's ability to retain and grow deposits, provided opportunities to deepen client relationships, and enhance franchise value.

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Business Strategy

The Company's strategy is to continue to build a relationship-oriented commercial bank by organically growing its existing client relationships and developing new long-term clients. The Company focuses on New York metropolitan area middle-market businesses with annual revenues of \$200 million or less and New York metropolitan area real estate entrepreneurs with a net worth of \$50 million or more. The Company originates and services CRE and C&I loans of generally between \$3 million and \$30 million, which it believes is an under-served segment of the market. Management believes that the Company is well positioned in a market area offering significant growth opportunities. As it grows, the Company will attempt to continue to convert many of its lending clients into full retail relationships.

The Company differentiates itself in the marketplace by offering excellent service, competitive products, innovative solutions, access to senior management, and an ability to make lending decisions in a timely manner combined with certainty of execution. The Company's lending team possesses industry expertise that enables it to better understand its clients' businesses and differentiates it from other banks in the market.

On-going relationships and tailored products

Management believes that the focus on servicing all aspects of the clients' businesses, including cash management and lending solutions, better positions the Company to be able to provide a host of services designed to meet its clients' current and future needs. The Company has the flexibility and commitment to create solutions tailored to the needs of each client. For example, the Company entered the healthcare lending space in 2001 and built out processes, procedures, and customized infrastructure to support its clients in this industry. Management intends to continue leveraging the quality of its team, existing relationships and its client-centered approach to further grow its tailored banking solutions, build deeper relationships and increase market share in its market area. Additionally, the Company is always working to expand its team by attracting and developing individuals that embody its spirit as "The Entrepreneurial Bank." This helps to ensure that it continues to meet its high standard of excellence, which drives relationships and loan growth.

Strong deposit franchise

The strength of the Company's deposit franchise comes from its long-standing relationships with clients and the strong ties it has in its market area. The Company has also developed a diversified funding strategy, which enables it to be less reliant on branches. Deposit funding is provided by the following deposit verticals:

- 1) Borrowing clients – The Company generates significant deposits from its borrowing clients. The Company provides commercial clients with convenient solutions such as remote deposit capture, business online banking and various other retail services and products. The Company will attempt to continue to convert lending clients into full retail clients and thereby continue to expand its retail presence.
- 2) Non-borrowing retail clients – These customers, located primarily in the New York City metropolitan area, need an efficient technology interface and the personal service of an experienced banker who can assist them in managing their day to day operations. Management believes that not every potential client of the Company is in need of extensions of credit; instead, these clients require a bank that can assist in making them more efficient and competitive.
- 3) Global payments business – The Company is an active issuer of debit cards for third-party debit card programs and administers domestic and international digital payments settlements for its fintech clients. It is expected that the global payments business will continue to be a diverse source of low-cost deposits as the Company continues to add new clients.
- 4) Corporate cash management clients – The Company provides corporate cash management services to clients who are in possession of or have discretion over large deposits such as, but not limited to, property management companies, title companies and bankruptcy trustees.

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Products and Services

The Company provides a comprehensive set of commercial and retail banking products and services customized to meet the needs of its clients. The Company offers a broad range of lending products, primarily CRE and C&I loans.

Lending Products

The Company's CRE products include acquisition loans, loans to refinance or return borrower equity on income producing properties, renovation loans, loans on owner-occupied properties and construction loans. The Company lends against a variety of asset classes, including multi-family, mixed use, retail, office, hospitality, healthcare and warehouse.

The Company's C&I products consist primarily of working capital lines of credit secured by business assets, self-liquidating term loans generally made for the acquisition of equipment and other long-lived company assets, trade finance and letters of credit. The majority of C&I loans carry the personal guarantee of the principals of the borrowing entity.

Commercial Real Estate

Non-owner occupied CRE comprises the largest component of the Company's real estate loan portfolio. These mortgage loans are secured by mixed-use properties, office buildings, commercial condominium units, retail properties, hotels and warehouses. In underwriting these loans, the Company generally relies on the income generated by the property as the primary means of repayment. However, the personal guarantee of the principals will frequently be required as a credit enhancement, particularly when the collateral property is in transition (i.e., under renovation and/or in the lease-up stage). A Phase I Environmental Report is generally required for all new CRE loans.

Loans are generally written for terms of three to five years, although loans with longer terms are occasionally written. Interest rates may be fixed or floating, and repayment schedules are generally based on a 25- to 30-year amortization schedule although interest only loans are also offered.

Factors considered in the underwriting include: the stability of the projected cash flows from the real estate based on operating history, tenancy, and current rental market conditions; the development and property management experience of the principals; the financial wherewithal of the principals, including an analysis of global cash flows; and credit history of the principals. Maximum LTVs range from 50% to 75%, depending on the property type. The minimum debt coverage ratio is 1.20x, with higher coverage required for hospitality and special use properties.

At December 31, 2022, \$1.2 billion, or 31.5% of the Company's real estate loan portfolio, consisted of loans to the healthcare industry, which were primarily made to nursing and residential care facilities. The Company has lenders who are experienced in lending to the healthcare industry, and particularly to skilled nursing homes. They generally originate loans to borrowers with strong cash flows who are very experienced operators that typically have over 1,000 beds under management. In addition to being secured by real estate, these loans are also generally secured by the assets of the operating company, and in almost all cases the credit facilities are personally guaranteed by principals of the company, who are typically high net worth individuals. The Company also originates term loans to standalone medical facilities such as radiology and dialysis centers and medical practices, which are secured by the assets of the company and the personal guarantees of the sponsors/owners of the practice.

Multi-family

The multi-family loan portfolio consists of loans secured by multi-tenanted residential properties primarily located in New York City or the greater New York area. In underwriting multi-family loans, the Company employs the same underwriting standards and procedures as are employed for non-owner occupied CRE.

Certain of the Company's loans are associated with rent stabilized units in the New York City boroughs, in which the laws limit rent increases for rent stabilized multi-family properties. At December 31, 2022, the Company had \$161.4 million of rent-regulated stabilized multi-family loans, which had a weighted-average debt coverage ratio of 3.34x and an average LTV of 42.24% based on the most recent appraisal, which provides a cushion against potential declines in value. If expense

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growth exceeds revenue growth, the property may not generate sufficient cash flows to cover debt service. See “*Risk Factors – Risk Relating to Lending Activities – The performance of the Company’s multi-family and mixed-use loans could be adversely impacted by regulation.*”

Construction Loans

Construction lending involves additional risks when compared to permanent loans. These risks include completion risk, which is impacted by unanticipated delays and/or cost overruns, and market risk, i.e., the risk that market rental rates and/or market sales prices may decline before the project is completed. Therefore, the Company only originates construction loans on a very selective basis. The types of construction loans the Company may originate are both extensive renovation loans as well as ground-up construction loans. At December 31, 2022, construction loans comprised 3.0% of the Company’s loan portfolio. In all cases the owner/developer has extensive construction experience, sufficient equity in the transaction (maximum loan to cost of 65%) and personal recourse on the loan. The Company has established limits for construction lending as a percentage of risk-based capital.

Commercial and Industrial Loans

C&I credit facilities are made to a wide range of industries. The principals of the companies have extensive experience in acquiring and operating their business. The industries include healthcare with a specialty in skilled nursing facilities, auto leasing firms, wholesalers, manufacturers and importers and exporters of a wide range of products. The loans are secured by the assets of the company including accounts receivable, inventory and equipment and, in most cases, are personally guaranteed. Collateral may also include owner-occupied real estate. The Company targets companies that have \$200 million of revenues or less.

The Company’s lines of credit are generally reviewed on an annual basis. Term loans typically have terms of two to five years and are also reviewed on an annual basis. The credit facilities may be made with either fixed or floating rates.

C&I loans are subject to risk factors that are unique to each business. In underwriting these loans, the Company seeks to gain an understanding of each client’s business in order to accurately assess the reliability of the company’s cash flows. The Company lends to borrowers who are well capitalized, and have an established track record in their business, with predictable growth and cash flows.

At December 31, 2022, \$219.4 million, or 24.2% of the Company’s C&I loan portfolio, consisted of loans to the healthcare industry, of which \$119.2 million, or 13.2% of these loans, were made to nursing and residential care facilities. Within the C&I lending group, the Company has lenders who are experienced in lending to the healthcare industry, and particularly to skilled nursing homes. They generally originate loans to borrowers with strong cash flows who are very experienced operators that typically have over 1,000 beds under management. In all cases these loans are secured by the assets of the operating company, and in almost all cases the credit facilities are personally guaranteed by principals of the company, who are typically high net worth individuals. The Company also originates term loans to standalone medical facilities such as radiology and dialysis centers and medical practices, which are secured by the assets of the company and the personal guaranties of the sponsors/owners of the practice.

Deposit Products and Services

The Company’s retail products and services are similar to those of mid-to-large competitive banks in its market, and include, but are not limited to, online banking, mobile banking, ACH, and remote deposit capture. The Company has and will continue to make investments in technology to meet the needs of its customers.

Global Payments Business

The Company administers domestic and international digital payment settlements on behalf of its fintech clients and serves as an issuing bank for third-party debit card programs nationwide. The Company acts as the depository institution for the processing of prepaid and debit card payments made to various businesses. The Company has designed products that enable clients to process electronic payments more easily and to better manage their risk of loss. These client accounts are

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a source of demand deposits and fee income. The Company maintains a robust risk management program that is designed to ensure safe and sound operations in compliance with applicable laws, rules and guidance around its global payments products.

In January 2023, the Company announced that it will fully exit the digital currency business, commonly referred to as the crypto-asset related business. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Events.”*

Corporate Cash Management Deposit Accounts

The Company’s entrepreneurial approach has encouraged management to find alternatives to traditional retail bank services, such as corporate cash management deposit accounts. These accounts belong to clients who are in possession of or have discretion over large deposits such as, but not limited to, property management companies, title companies and bankruptcy trustees. The accounts provide a significant source of deposits. At December 31, 2022, deposits in these accounts amounted to \$1.3 billion, which was 25.3% of total deposits. These accounts included money market accounts, demand deposit accounts and other interest-bearing transaction accounts.

Asset Quality

Non-Performing Assets

Non-performing assets consist of non-accrual loans, consumer loans placed in forbearance with payments past due over 90 days and still accruing, and non-accrual TDRs. Non-performing loans exclude TDRs that are accruing and have been performing in accordance with the terms of their restructure agreement for at least six months. Non-performing loans also exclude loan modifications that were not considered TDRs under the CARES Act. See *“NOTE 2 – BASIS OF PRESENTATION – Loans and Allowance for Loan Losses”* to the Company’s consolidated financial statements in this Form 10-K.

The past due status on loans is based on the contractual terms of the loan. It is generally the Company’s policy that a loan 90 days past due be placed on non-accrual status unless factors exist that would eliminate the need to place a loan on this status. A loan may also be designated as non-accrual at any time if payment of principal or interest in full is not expected due to deterioration in the financial condition of the borrower. At the time loans are placed on non-accrual status, the accrual of interest is discontinued and previously accrued interest is reversed. All payments received on non-accrual loans are generally applied to principal. Loans are considered for return to accrual status when they become current as to principal and interest and remain current for a period of six consecutive months or when, in the opinion of management, the Company expects to receive all of its original principal and interest. In the case of non-accrual loans where a portion of the loan has been charged off, the remaining balance is kept on non-accrual status until the entire principal balance has been recovered.

Allowance for Loan Losses

The ALLL is maintained at an amount management deems adequate to cover probable incurred credit losses. In determining the level to be maintained, management evaluates many factors, including current economic trends, industry experience, historical loss experience, loan concentrations, the borrower’s ability to repay and repayment performance and estimated collateral values. Loan losses are charged-off against the allowance when management believes the loan is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for non-impaired loans is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over a rolling two-year period. This actual loss experience is supplemented with other qualitative and economic factors based on the risks present for each portfolio segment. These qualitative and economic factors include economic and business conditions, the nature and volume of the portfolio, and lending terms and volume and severity of past due loans.

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A loan is considered to be impaired when it is probable that the Company will be unable to collect all principal and interest amounts 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 record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, impairment is measured at the present value of estimated future cash flows using the loan's effective interest rate or at the fair value of collateral if repayment is expected solely from the collateral. The majority of the Company's impaired loans are secured and measured for impairment based on collateral valuations. An impairment measurement is performed based upon the most recent appraisal on file. In determining the amount of any impairment, the Company will make adjustments to reflect the estimated costs to sell the collateral. It is the Company's policy to obtain updated appraisals by independent third parties on loans secured by real estate at the time a loan is determined to be impaired. Upon receipt and review of the updated appraisal, an additional impairment measurement is performed. Impaired loans are reviewed on a quarterly basis to determine if any changes in credit quality or market conditions have occurred that would impact the impairment measurement. Non-real estate collateral may be valued using (i) an appraisal, (ii) net book value of the collateral per the borrower's financial statements, or (iii) accounts receivable aging reports, that may be adjusted based on management's knowledge of the client and client's business. If market conditions warrant, updated appraisals are obtained for both real estate and non-real estate collateral.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (ASC 326), which requires the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. The Company adopted this guidance effective January 1, 2023. See "*NOTE 3 – SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*" to the Company's consolidated financial statements in this Form 10-K.

Troubled Debt Restructurings

The Company works closely with borrowers that have financial difficulties to identify viable solutions that minimize the potential for loss. In that regard, the Company modifies the terms of certain loans to maximize their collectability. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs under current accounting guidance. Modifications generally involve short-term deferrals of principal and/or interest payments, reductions of scheduled payment amounts, interest rates or principal of the loan, and forgiveness of accrued interest.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (ASC 326): Troubled Debt Restructurings and Vintage Disclosures. ASU 2022-02 eliminates the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted this guidance effective January 1, 2023, see "*NOTE 3 – SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*" to the Company's consolidated financial statements in this Form 10-K.

Credit Risk Management

The Company controls credit risk both through disciplined underwriting of each transaction, as well as active credit management processes and procedures to manage risk and minimize loss throughout the life of a transaction. The Company seeks to maintain a broadly diversified loan portfolio in terms of type of customer, type of loan product, geographic area and industries in which business customers are engaged. The Company has developed tailored underwriting criteria and credit management processes for each of the various loan product types it offers customers.

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Underwriting

In evaluating each potential loan relationship, the Company adheres to a disciplined underwriting evaluation process including, but not limited to the following:

- understanding the customer's financial condition and ability to repay the loan;
- verifying that the primary and secondary sources of repayment are adequate in relation to the amount and structure of the loan;
- observing appropriate LTV guidelines for collateral-dependent loans;
- identifying the customer's level of experience in their business;
- identifying macroeconomic and industry level trends;
- maintaining targeted levels of diversification for the loan portfolio, both as to type of borrower and geographic location of collateral; and
- ensuring that each loan is properly documented and liens are perfected on collateral.

Loan Approval Authority

The Company's lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by its Board of Directors and management. The Company has established several levels of lending authority that have been delegated by the Board of Directors to the Credit Committee and other personnel in accordance with the Lending Authority in the Commercial Loan Policy. Authority limits are based upon the individual loan size and the total exposure of the borrower and are conditioned on the loan conforming to the policies contained in the Commercial Loan Policy. All loans over \$10 million go to the Credit Committee for approval. The Credit Committee is comprised of Board members and the Company's Chief Executive Officer. There are four Board members who are permanent members of the Credit Committee; and a minimum of two other Board members rotate quarterly. Loans of \$10 million or less are approved by management subject to individual officer approval limits. However, for all group relationships with total exposure in excess of 20% of risk-based capital, approval of the Credit Committee will be required for loans of any size; except that a loan will not require Credit Committee approval if the loan request is no greater than 10% of the relationship, to a maximum of \$1.0 million, whereby Lending Officers approval will be required. Any loan policy exceptions are fully disclosed to the approving authority.

Loans to One Borrower

In accordance with loans-to-one-borrower regulations promulgated by the NYSDFS, the Company is generally limited to lending no more than 15% of its capital stock, surplus fund and undivided profits to any one borrower or borrowing entity. Management understands the importance of concentration risk and continuously monitors the Company's loan portfolio to ensure that risk is balanced between such factors as loan type, industry, geography, collateral, structure, maturity and risk rating, among other things. The Company's Commercial Loan Policy establishes detailed concentration limits and sub-limits by loan type and geography.

Ongoing Credit Risk Management

In addition to the underwriting process described above, the Company performs ongoing risk monitoring and reviews processes for all credit exposures. While the Company grades and classifies its loans internally, it also engages an independent third-party firm to perform regular loan reviews and confirm loan classifications. The Company strives to identify potential problem loans early in an effort to aggressively seek resolution of these situations before the loans result in a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio.

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In general, whenever a particular loan or overall borrower relationship is classified as pass-watch, special mention or substandard based on one or more standard loan grading factors, the Company's credit officers engage in active evaluation of the loan to determine the appropriate resolution strategy. On a quarterly basis, management and the Board of Directors review the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio.

Investments

The Company's investment objectives are primarily to provide and maintain liquidity, establish an acceptable level of interest rate risk and safely invest excess funds when demand for loans is less than deposit growth. Subject to these primary objectives, the Company also seeks to generate a favorable return. The Board of Directors has the overall responsibility for the investment portfolio, including approval of the investment policy. The ALCO and management are responsible for implementation of the Company's investment policy and monitoring its investment performance. The ALCO reviews the status of its investment portfolio quarterly.

The Company has legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored agencies, mortgage-backed and municipal government securities, deposits at the FHLBNY, certificates of deposit of federally insured institutions, investment grade corporate bonds and investment grade money market mutual funds. It is also required to maintain an investment in FHLBNY stock, which investment is based primarily on the level of its FHLBNY borrowings. Additionally, the Company is required to maintain an investment in FRBNY stock equal to six percent of its capital and surplus.

The majority of the Company's investments are classified as AFS and HTM and can be used to collateralize FHLBNY borrowings, FRB borrowings, public funds deposits or other borrowings. At December 31, 2022, the investment portfolio consisted primarily of residential mortgage-backed securities and, to a lesser extent, U.S. Government Agency and treasury securities, commercial mortgage-backed securities and municipal securities.

Sources of Funds

Deposits

Deposits have traditionally been the Company's primary source of funds for use in lending and investment activities. The Company generates deposits from prepaid third-party debit card programs, fintech customers, its cash management platform offered to bankruptcy trustees, property management companies and others, local businesses, individuals through client referrals and other relationships and through its retail branch network. The Company believes that it has a very stable deposit base as it successfully encourages its business borrowers to maintain their operating banking relationship with the Company. The Company's deposit strategy primarily focuses on developing borrowing and other service-oriented relationships with customers rather than competing with other institutions on rate. It has established deposit concentration thresholds to avoid the possibility of dependence on any single depositor base for funds.

In the first quarter of 2020, the Company entered into an interest rate cap derivative contract as a part of its asset liability management strategy to help manage its interest rate risk position. The interest rate cap had a notional amount of \$300.0 million and a contractual maturity of March 1, 2025. The interest rate cap was designated as a cash flow hedge of certain deposit liabilities. In the third quarter of 2022, the Company terminated the interest rate cap and monetized the gain on the derivative. The unrecognized value of \$12.7 million at termination will be released from Accumulated Other Comprehensive Income and recorded as a credit to Licensing fees expense through March 2025.

Borrowings

The Company maintains diverse funding sources including borrowing lines at the FHLB and the FRB discount window. The Company may, from time to time, utilize advances from the FHLB to supplement its funding sources. The FHLB provides credit products for its member financial institutions. As a member, the Company is required to own capital stock in the FHLB and is authorized to apply for advances collateralized by certain of its real estate-related mortgage loans and other assets, provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Limitations on the amount of advances that

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can be drawn are based either on a fixed percentage of an institution's total assets and/or on the FHLB's assessment of the institution's creditworthiness. The Company maintains a borrowing line supported by a borrower in custody collateral agreement with the FRB discount window.

At December 31, 2022, the Company had \$150.0 million of Federal funds purchased and \$100.0 million of FHLBNY advances outstanding.

Human Capital Resources

Our employees are vital to our success and growth and are considered one of our greatest assets. The experience, knowledge, and customer service excellence they bring everyday differentiates us from our competitors. We consider our relationship with our employees to be good. As of December 31, 2022, the Company employed 239 full-time employees, and 2 part-time employees, none of whom are represented by a collective bargaining unit. This is an increase of 39 employees, or approximately 19.3%, from December 31, 2021, to support our expanding businesses and to support risk management in the Company's Compliance, Credit Administration, Global Payments Operations, Technology, BSA/Anti-Money Laundering, and Risk Management, as well as in the Lending groups and other business lines.

Talent Acquisition and Retention

The Company employs a business model that combines high-touch service, emerging technologies, and the relationship-based focus of a community bank. We offer a suite of banking and financial services to businesses and individuals that includes a growing emphasis on BaaS. Management seeks to hire, develop, promote, and retain well-qualified employees who are aligned with the Company's business model and reflects the community.

The Company's selection and promotion processes are without bias and include the active recruitment of minorities and women. The ratios of women and men in the Company are 47% and 53% at December 31, 2022, respectively, which is relatively unchanged from December 31, 2021. Approximately 34.4% of the employees identified as minorities at December 31, 2022, as compared to 29.7% at December 31, 2021. Within that percentage, 19.1% identify as women, as compared to 17.3% at December 31, 2021. The Company defines minorities as the following groups based on the U.S. Department of Labor Affirmative Action definition: Black or African American, Hispanic, or Latino, Native Hawaiian or Other Pacific Islander, and American Indians/Alaskan Natives.

To attract and retain high performing talent, the Company offers competitive, performance-based compensation and a benefits plan that includes comprehensive health care coverage, a 401(k) Plan with a Company match, life and disability insurance, commuter benefits, flexible spending accounts and health savings accounts, wellness programs, Employee Assistance Program, paid time-off and leave policies, including paid maternity/paternity leave. The Company also offers an Employee Referral Program that allows employees to earn a referral bonus by recommending candidates for open positions.

Training and Development

The training and development of employees is a priority. The Company encourages and supports the growth and development of its employees and, whenever possible, seeks to fill positions by promotion and transfer from within the organization. New job openings are posted internally with guidelines for employees to apply. This allows for career advancement, and new learning opportunities, as well as benefiting the Company by organically building its bench strength to support future growth.

The Company conducts a comprehensive New Employee Orientation for all new hires. All employees are required to complete a minimum number of hours of Compliance, BSA/Anti-Money Laundering, Enterprise Risk, Information Security/Cyber Security and technical training annually via the Company's Learning Management System ("LMS"). Employees are also periodically assigned Professional Skills training via the LMS. The Board of Directors receives on-site training in these areas as well as through the LMS. Additional Cyber Security and Information Security updates and reminders are provided periodically.

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The Company provides in-person training to employees on topics such as Cybersecurity, Enterprise Risk, Compliance, Technology, Strategic Planning, Goal Setting, and Employee Health Benefits. In addition, informal learning opportunities are available for employees such as attending Committee meetings to better understand the business, meeting with senior level staff and cross-training within their own department. To further their education, employees are encouraged to attend external business-related training seminars, conferences, and networking opportunities, which are paid for by the Bank.

In 2022, the Company offered on-site training on its 401(k) Plan's features and available investments. A licensed investment advisor delivered the educational sessions in a group setting and also provided one on one sessions for those who requested individualized guidance. In addition, the Company added its common stock as an investment option to the 401(k) Plan, which was covered in the training.

Formal Management Skills training was conducted in 2022 for those employees who were newly promoted, those seeking to be promoted and those who were interested in a refresher on the guiding principles of management. The training was conducted by the American Management Association on-site at the Company headquarters over two days. The Company will continue to offer this training in 2023 to further support the development of its employees.

The Company continues to utilize the Employee Career Path Program that it implemented in 2021 to empower employees to have direct input over their career path. The employee and their manager meet one on one to define a pathway for learning and career progression. They have regular check-ins throughout the year to ensure the employee is on track to accomplish the goals identified. A template is provided to the manager by Human Resources so both the manager and employee have the opportunity to document the goals they establish together, identify strengths and areas for development, as well as document their next meeting dates. This allows for clear and consistent communication throughout the process.

In 2022, the Company conducted on-site Diversity, Equity and Inclusion training to the Board of Directors and to all Company employees. This training will be a continued focus going forward.

The Company has an Employee Engagement Committee ("EEC") comprised of employees from various departments who organize events to support community-based functions, employee interests, educational sessions around different cultures, and volunteering for charities, among other activities. An educational lunch and learn was presented to employees in June 2022 on the meaning of Juneteenth. It was well received by the employees and the EEC plans on delivering additional similar sessions in 2023.

Environmental, Social and Governance

In the fourth quarter of 2022, the Company formalized its Environmental, Social and Governance ("ESG") initiative. The Company has partnered with a consulting firm to assist the Company in identifying appropriate ESG priorities to focus on and implement, and to build the proper governance structure and ESG roadmap, as well as developing an ESG report. An ESG Working Group has been established under the oversight of the Board of Directors' Corporate Governance and Nominating Committee and includes representatives from across the Company. The ESG Working Group will play a critical role in identifying ESG concerns that are material to the Company's strategy.

Safety, Health and Welfare

The safety, health and wellness of our employees is a top priority. During the COVID-19 pandemic, the Company continued to responsibly serve the needs of its customers while prioritizing the health and safety of employees.

The Company created a COVID-19 Committee that was and continues to be responsible for the administration of the pandemic response for the Company. The Committee identified the potential threat of COVID-19 in February 2020 and activated its Pandemic Plan in March 2020. The Pandemic Plan incorporates developing guidance from the regulatory and health communities and the Company has continued to adapt protocols to protect the health and well-being of employees while minimizing interruption to its business. The Company continues to monitor current law and guidance on COVID-19, and the Human Resources Department works closely with the employees to assist and provide accurate information in this fluid and changing environment.

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Subsidiaries

Metropolitan Commercial Bank is the sole subsidiary of Metropolitan Bank Holding Corp. and there are no significant subsidiaries of Metropolitan Commercial Bank.

Federal, State and Local Taxation

The following is a general description of material tax matters and does not purport to be a comprehensive review of the tax rules applicable to the Company.

For federal income tax purposes, the Company files a consolidated income tax return on a calendar year basis using the accrual method of accounting. The Company is subject to federal income taxation in the same manner as other corporations. For its 2022 taxable year, the Company is subject to a maximum Federal income tax rate of 21%.

The Company is subject to California, Connecticut, Kentucky, Massachusetts, New Jersey, New York State, New York City, and Tennessee income taxes on a consolidated basis. The Bank is subject to Alabama, Florida, and Missouri income taxes on a separate company basis.

The Inflation Reduction Act of 2022 was signed into law on August 16, 2022. The Act includes provisions that extend the expanded Affordable Care Act health plan premium assistance program through 2025, impose an excise tax on stock buybacks, increase funding for IRS tax enforcement, expand energy incentives, and impose a corporate minimum tax. See *“Risk Factors – Risk Relating to Legislative and regulatory actions may increase the Company’s costs and impact its business, governance structure, financial condition or results of operations.”*

Regulation

General

The Bank is a commercial bank organized under the laws of the state of New York. It is a member of the Federal Reserve System and its deposits are insured under the DIF of the FDIC up to applicable legal limits. The lending, investment, deposit-taking, and other business authority of the Company is governed primarily by state and federal law and regulations and the Company is prohibited from engaging in any operations not authorized by such laws and regulations. The Company is subject to extensive regulation, supervision and examination by, and the enforcement authority of, the NYSDFS and FRB, and to a lesser extent by the FDIC, as its deposit insurer. The Company is also subject to federal financial consumer protection and fair lending laws and regulations of the CFPB, though, because it has less than \$10 billion in total consolidated assets, the FRB and NYSDFS are responsible for examining and supervising the Company’s compliance with these laws. The regulatory structure establishes a comprehensive framework of activities in which a state member bank may engage and is primarily intended for the protection of depositors, customers and the DIF. The regulatory structure gives the regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

The Company is a bank holding company, due to its control of the Bank, and is therefore subject to the requirements of the BHCA, and regulation and supervision by the FRB. The Company files reports with and is subject to periodic examination by the FRB.

Any change in the applicable laws and regulations could have a material adverse impact on the Company and the Bank and their operations and the Company’s stockholders.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Economic Growth Act”) was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Wall Street and Consumer Protection Act (“Dodd-Frank Act”). While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion.

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In addition, the Economic Growth Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule, mortgage disclosures and risk weights for certain high-risk CRE loans.

What follows is a summary of some of the laws and regulations applicable to the Bank and the Company. The summary is not intended to be exhaustive and is qualified in its entirety by reference to the actual laws and regulations.

Regulations of the Bank

Loans and Investments

State commercial banks have authority to originate and purchase any type of loan, including commercial, CRE, residential mortgages or consumer loans. Aggregate loans by a state commercial bank to any single borrower or group of related borrowers are generally limited to 15% of a bank's capital stock, surplus fund and undivided profits, plus an additional 10% if secured by specified readily marketable collateral.

Federal and state law and regulations limit a bank's investment authority. Generally, a state member bank is prohibited from investing in corporate equity securities for its own account other than the equity securities of companies through which the bank conducts its business. Under federal and state regulations, a New York state member bank may invest in investment securities for its own account up to specified limits depending upon the type of security. "Investment securities" are generally defined as marketable obligations that are investment grade and not predominantly speculative in nature. The NYSDFS classifies investment securities into five different types and, depending on its type, a state commercial bank may have the authority to deal in and underwrite the security. The NYSDFS has also permitted New York state member banks to purchase certain non-investment securities that can be reclassified and underwritten as loans.

Lending Standards and Guidance

The federal banking agencies adopted uniform regulations prescribing standards for extensions of credit that are secured by liens or interests in real estate or made for the purpose of financing permanent improvements to real estate. Under these regulations, all insured depository institutions, such as the Bank, must adopt and maintain written policies establishing appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including LTV limits) that are clear and measurable, loan administration procedures, and documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the federal bank regulators' Interagency Guidelines for Real Estate Lending Policies that have been adopted.

The FDIC, the OCC and the FRB have also jointly issued the CRE Guidance. The CRE Guidance, which addresses land development, construction, and certain multi-family loans, as well as CRE loans, does not establish specific lending limits but rather reinforces and enhances these agencies' existing regulations and guidelines for such lending and portfolio management. Specifically, the CRE Guidance provides that a bank has a concentration in CRE lending if (1) total reported loans for construction, land development, and other land represent 100% or more of total risk-based capital; or (2) total reported loans secured by multi-family properties, non-farm non-residential properties (excluding those that are owner-occupied), and loans for construction, land development, and other land represent 300% or more of total risk-based capital and the bank's CRE loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending.

Federal Deposit Insurance

Deposit accounts at the Bank are insured up to applicable legal limits by the FDIC's DIF. Effective July 22, 2010, the Dodd-Frank Act permanently raised the deposit insurance available on all deposit accounts to \$250,000.

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The FDIC finalized a rule, effective April 1, 2011, that set the FDIC assessment range at 2.5 to 45 basis points of total assets less tangible equity. Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories and base assessments for most banks on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure over three years. In conjunction with the DIF reserve ratio achieving 1.5%, the assessment range (inclusive of possible adjustments) was also reduced for small institutions to a range of 1.5 to 30 basis points of total assets less tangible equity. The FDIC adopted a final rule in 2022, applicable to all insured depository institutions, to increase initial base deposit insurance assessment rate schedules uniformly by two basis points, beginning in the first quarterly assessment period of 2023. The FDIC also concurrently maintained the DIF reserve ratio at 2.0% for 2023. The increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio reaches the statutory minimum of 1.35% by the statutory deadline of September 30, 2028.

The FDIC may adjust its assessment scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No insured depository institution may pay a dividend if in default of the federal deposit insurance assessment.

The FDIC may terminate deposit insurance upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Company does not know of any practice, condition or violation that might lead to termination of the Company's deposit insurance.

Capitalization

The FRB regulations require state member banks, such as the Bank, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of a common equity Tier 1 capital ratio, Tier 1 capital ratio and total capital to risk-weighted assets ratio of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital consists primarily of common stockholders' equity and related surplus, plus retained earnings, less any amounts of goodwill, other intangible assets, and other items required to be deducted. Tier 1 capital consists primarily of common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital primarily includes capital instruments and related surplus meeting specified requirements and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, a bank's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on perceived risks inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one-to-four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans or are on non-accrual status and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The Company's minimum required capital conservation buffer was at 2.5% of

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risk-weighted assets at December 31, 2022. See Part II, Item 7., “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Regulation*” for a summary of the Company’s capital ratios.

As a result of the Economic Growth Act, banking regulatory agencies adopted a revised definition of “well capitalized” for eligible financial institutions and holding companies with assets of less than \$10 billion (a “Qualifying Community Bank”). The new rule establishes a community bank leverage ratio (“CBLR”) equal to the tangible equity capital divided by the average total consolidated assets. Regulators have established the CBLR to be set at 8.5% through calendar year 2021 and 9% thereafter. The CARES Act, signed into law in response to the COVID-19 pandemic, temporarily reduced the CBLR to 8%. The Company did not elect to be governed by the CBLR framework and at December 31, 2022, the Company’s capital exceeded all applicable requirements.

Safety and Soundness Standards

Each federal banking agency, including the FRB, has adopted guidelines establishing general standards relating to, among other things, internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and information security standards. In general, the guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired, and require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. The FDIC also has issued guidance on risks banks may face from third-party relationships (e.g., relationships under which the third-party provides services to the bank). The guidance generally requires the Company to perform adequate due diligence on the third-party, appropriately document the relationship, and perform adequate oversight and auditing, in order to the limit the risks to the Company.

Prompt Corrective Regulatory Action

Federal law requires that federal bank regulatory authorities take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For these purposes, the statute establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

State member banks that have insufficient capital are subject to certain mandatory and discretionary supervisory measures. For example, a bank that is “undercapitalized” (i.e., fails to comply with any regulatory capital requirement) is subject to growth, capital distribution (including dividend) and other limitations, and is required to submit a capital restoration plan; a holding company that controls such a bank is required to guarantee that the bank complies with the restoration plan. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” A “significantly undercapitalized” bank is subject to additional restrictions. State member banks deemed by the FRB to be “critically undercapitalized” also may not make any payment of principal or interest on certain subordinated debt, extend credit for a highly leveraged transaction, or enter into any material transactions outside the ordinary course of business after 60 days of obtaining such status, and are subject to the appointment of a receiver or conservator within 270 days after obtaining such status.

Under the prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10% and (4) a Tier 1 leverage ratio of 5%. The Bank was well capitalized at December 31, 2022.

Dividends

Under federal and state law and applicable regulations, a state member bank may generally declare a dividend, without approval from the NYSDFS or FRB, in an amount equal to its year-to-date net income plus the prior two years’ net income that is still available for dividend. Dividends exceeding those amounts require application to and approval by the NYSDFS

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or FRB. To pay a cash dividend, a state member bank must also maintain an adequate capital conservation buffer under the capital rules discussed above.

Incentive Compensation Guidance

The FRB, OCC, FDIC and other federal banking agencies have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations, including state member banks and bank holding companies, do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. In addition, under the incentive compensation guidance, a banking organization's federal supervisor, which for the Bank and the Company is the FRB, may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization. Further, provisions of the Basel III regime described above limit discretionary bonus payments to bank and bank holding company executives if the institution's regulatory capital ratios fail to exceed certain thresholds. The scope and content of the banking regulators' policies on incentive compensation are likely to continue evolving.

Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act govern transactions between an insured depository institution and its affiliates, which includes the Company. The FRB has adopted Regulation W, which implements and interprets Sections 23A and 23B, in part by codifying prior FRB interpretations.

An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution or a "financial subsidiary" under federal law is not treated as an affiliate of the bank for the purposes of Sections 23A and 23B; however, the FRB has the discretion to treat subsidiaries of a bank as affiliates on a case-by-case basis. Section 23A limits the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the bank's capital stock and surplus. There is an aggregate limit of 20% of the bank's capital stock and surplus for such transactions with all affiliates. The term "covered transaction" includes, among other things, the making of a loan to an affiliate, a purchase of assets from an affiliate, the issuance of a guarantee on behalf of an affiliate and the acceptance of securities of an affiliate as collateral for a loan. All such transactions are required to be on terms and conditions that are consistent with safe and sound banking practices and no transaction may involve the acquisition of any "low quality asset" from an affiliate unless certain conditions are satisfied. Certain covered transactions, such as loans to or guarantees on behalf of an affiliate, must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amount, depending upon the type of collateral. In addition, Section 23B requires that any covered transaction (and specified other transactions) between a bank and an affiliate must be on terms and conditions that are substantially the same, or at least as favorable, to the bank, as those that would be provided to a non-affiliate.

A bank's loans to its executive officers, directors, any owner of more than 10% of its stock (each, an "insider") and certain entities affiliated with any such person (an insider's "related interest") are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the FRB's Regulation O. The aggregate amount of a bank's loans to any insider and the insider's related interests may not exceed the loans-to-one-borrower limit applicable to state member banks. Aggregate loans by a bank to its insiders and insiders' related interests may not exceed 15% of the bank's unimpaired capital and unimpaired surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the bank's unimpaired capital and unimpaired surplus. With certain exceptions, such as education loans and certain residential mortgages, a bank's loans to its executive officers may not exceed the greater of \$25,000 or 2.5% of the bank's unimpaired capital and unimpaired surplus, but in no event more than \$100,000. Regulation O also requires that any loan to an insider or a related interest of an insider be approved in advance by a majority of the board of directors of the bank, with any interested director not participating in the voting, if the loan, when aggregated with any existing loans to that insider or the insider's related interests, would exceed the higher of \$25,000 or 5% of the bank's unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are no less stringent than, those that are prevailing at the time for comparable transactions with other persons and must not involve more than a normal risk of repayment. An exception is

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made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

Enforcement

The NYSDFS and the FRB have extensive enforcement authority over state member banks to correct unsafe or unsound practices and violations of law or regulation. Such authority includes the issuance of cease and desist orders, assessment of civil money penalties and removal of officers and directors. The FRB may also appoint a conservator or receiver for a state member bank under specified circumstances, such as where (i) the bank's assets are less than its obligations to creditors, (ii) the bank is likely to be unable to pay its obligations or meet depositors' demands in the normal course of business, or (iii) a substantial dissipation of bank assets or earnings has occurred due to a violation of law or regulation or unsafe or unsound practices. Separately, the Superintendent of the NYSDFS also has the authority to appoint a receiver or liquidator of any state-chartered bank under specified circumstances, including where (i) the bank is conducting its business in an unauthorized or unsafe manner, (ii) the bank has suspended payment of its obligations, or (iii) the bank cannot with safety and expediency continue to do business.

Examinations and Assessments

The Company is required to file periodic reports with and is subject to periodic examination by the NYSDFS and FRB. Federal and state regulations generally require periodic on-site examinations for all depository institutions. The Company is required to pay an annual assessment to the NYSDFS and FRB to fund the agencies' operations.

Community Reinvestment Act and Fair Lending Laws

Federal Regulation

Under the CRA, the Company has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FRB to assess the Company's record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the Company. For example, the regulations specify that a bank's CRA performance will be considered in its expansion (e.g., branching or merger) proposals and may be the basis for approving, denying or conditioning the approval of an application. The Company is awaiting its most recent CRA rating for the examination conducted in 2022. The latest FRB CRA rating received by the Company was "Satisfactory" for the examination conducted in 2020.

New York State Regulation

The Company is also subject to provisions of the New York State Banking Law that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community. Such obligations are substantially similar to those imposed by the CRA. The Company is awaiting its most recent CRA rating for the examination conducted in 2022. The latest NYSDFS CRA rating received by the Company was "Satisfactory" for the examination conducted in 2016.

USA PATRIOT Act and Money Laundering

The Company is subject to the BSA, which incorporates several laws, including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act and related regulations. The USA PATRIOT Act gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the BSA, Title III of the USA PATRIOT Act implemented measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial

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institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other things, Title III of the USA PATRIOT Act and the related regulations require:

- Establishment of anti-money laundering compliance programs that include policies, procedures, and internal controls; the designation of a BSA officer; a training program; and independent testing;
- Filing of certain reports to Financial Crimes Enforcement Network and law enforcement that are designated to assist in the detection and prevention of money laundering and terrorist financing activities;
- Establishment of a program specifying procedures for obtaining and maintaining certain records from customers seeking to open new accounts, including verifying the identity of customers;
- In certain circumstances, compliance with enhanced due diligence policies, procedures and controls designed to detect and report money-laundering, terrorist financing and other suspicious activity;
- Monitoring account activity for suspicious transactions; and
- A heightened level of review for certain high-risk customers or accounts.

The USA PATRIOT Act also includes prohibitions on correspondent accounts for foreign shell banks and requires compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

The bank regulatory agencies have increased the regulatory scrutiny of the BSA and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, for financial institutions engaging in a merger transaction, federal bank regulatory agencies must consider the effectiveness of the financial institution's efforts to combat money laundering activities.

The Company has adopted policies and procedures to comply with these requirements.

Privacy Laws

The Company is subject to a variety of federal and state privacy laws, which govern the collection, safeguarding, sharing and use of customer information, and require that financial institutions have in place policies regarding information privacy and security. For example, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail consumer customers to provide such customers with the financial institution's privacy policy and practices for sharing nonpublic information with third parties, provide advance notice of any changes to the policies and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties. It also requires banks to safeguard personal information of consumer customers. Some state laws also protect the privacy of information of state residents and require adequate security for such data, and certain state laws may, in some circumstances, require the Company to notify affected individuals of security breaches of computer databases that contain their personal information. These laws may also require the Company to notify law enforcement, regulators or consumer reporting agencies in the event of a data breach, as well as businesses and governmental agencies that own data.

Third-Party Debit Card Products and Merchant Services

The Company is also subject to the rules of Visa, Mastercard and other payment networks in which it participates. If the Company fails to comply with such rules, the networks could impose fines or require it to stop providing merchant services for cards under such network's brand or routed through such network.

Consumer Finance Regulations

The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. In this regard, the CFPB has several rules that implement various provisions of the Dodd-Frank Act that were specifically identified as being enforced by the CFPB. While the Company is subject to the CFPB regulations, because it has less than \$10 billion in total consolidated assets, the FRB and the NYSDFS are responsible for examining and supervising the Company’s compliance with these consumer financial laws and regulations. In addition, the Company is subject to certain state laws and regulations designed to protect consumers.

Other Regulations

The Company’s operations are also subject to federal laws applicable to credit transactions, such as:

- The Truth-In-Lending Act and Regulation Z promulgated thereunder, governing disclosures of credit terms to consumer borrowers;
- The Real Estate Settlement Procedures Act and Regulation X promulgated thereunder, requiring that borrowers for mortgage loans for one-to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- The Home Mortgage Disclosure Act and Regulation C promulgated thereunder, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and Regulation B promulgated thereunder, and other fair lending laws, prohibiting discrimination on the basis of race, religion, sex and other prohibited factors in extending credit;
- The Fair Credit Reporting Act, governing the use of credit reports on consumers and the provision of information to credit reporting agencies;
- Unfair or Deceptive or Abusive Acts or Practices laws and regulations;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- The Coronavirus Aid, Relief and Economic Security Act; and
- The rules and regulations of the various federal agencies charged with responsibility for implementing such federal laws.

The operations of the Company are further subject to the:

- The Truth in Savings Act and Regulation DD promulgated thereunder, which specifies disclosure requirements with respect to deposit accounts;
- The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- The Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers’ rights and liabilities arising from the use of automated teller machines and other electronic banking services;

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- The Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- State unclaimed property or escheatment laws; and
- Cybersecurity regulations, including but not limited to those implemented by NYSDFS.

Holding Company Regulation

The Company, as a bank holding company controlling the Bank, is subject to regulation and supervision by the FRB under the BHCA. The Company is periodically examined by and required to submit reports to the FRB and must comply with the FRB’s rules and regulations. Among other things, the FRB has authority to restrict activities by a bank holding company that are deemed to pose a serious risk to the subsidiary bank.

The FRB has historically imposed consolidated capital adequacy guidelines for bank holding companies structured similar, but not identical, to those of state member banks. The Dodd-Frank Act directed the FRB to issue consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks applied to bank holding companies as of January 1, 2015. The Company is subject to the consolidated holding company capital requirements.

The policy of the FRB is that a bank holding company must serve as a source of financial and managerial strength to its subsidiary banks by providing capital and other support in times of distress. The Dodd-Frank Act codified the source of strength policy.

Under the prompt corrective action provisions of federal law, a bank holding company parent of an undercapitalized subsidiary bank is required to guarantee, within specified limits, the capital restoration plan that is required of an undercapitalized bank. If an undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an acceptable plan, the FRB may prohibit the bank holding company parent of the undercapitalized bank from paying dividends or making any other capital distribution.

As a bank holding company, the Company is required to obtain the prior approval of the FRB to acquire direct or indirect ownership or control of more than 5% of a class of voting securities of any additional bank or bank holding company, to acquire all or substantially all of the assets of any additional bank or bank holding company or merging or consolidating with any other bank holding company. In evaluating acquisition applications, the FRB evaluates factors such as the financial condition, management resources and future prospects of the parties, the convenience and needs of the communities involved and competitive factors. In addition, bank holding companies may generally only engage in activities that are closely related to banking as determined by the FRB. Bank holding companies that meet certain criteria may opt to become a financial holding company and thereby engage in a broader array of financial activities.

FRB policy is that a bank holding company should pay cash dividends only to the extent that the company’s net income for the past two years is sufficient to fund the dividends and the prospective rate of earnings retention is consistent with the company’s capital needs, asset quality and overall financial condition. In addition, FRB guidance sets forth the supervisory expectation that bank holding companies will inform and consult with FRB staff in advance of issuing a dividend that exceeds earnings for the quarter and should inform the FRB and should eliminate, defer or significantly reduce dividends if (i) net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company’s capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

A bank holding company that is not well capitalized or well managed, or that is subject to any unresolved supervisory issues, is required to give the FRB prior written notice of any repurchase or redemption of its outstanding equity securities if the gross consideration for repurchase or redemption, when combined with the net consideration paid for all such

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repurchases or redemptions during the preceding 12 months, will be equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a repurchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice or violate a law or regulation. However, FRB guidance generally provides for bank holding company consultation with FRB staff prior to engaging in a repurchase or redemption of a bank holding company's stock, even if a formal written notice is not required.

The above FRB requirements may restrict a bank holding company's ability to pay dividends to stockholders or engage in repurchases or redemptions of its shares.

Acquisition of Control of the Company

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the FRB has prior written notice and has not issued a notice disapproving the proposed acquisition. In evaluating such notices, the FRB takes into consideration such factors as the financial resources, competence, experience and integrity of the acquirer, the future prospects the bank holding company involved and its subsidiary bank and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, as is the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal Securities Laws

The Company is a reporting company subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Emerging Growth Company Status

The JOBS Act, which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year qualifies as an EGC. The Company qualified as an EGC under the JOBS Act until December 31, 2022.

The Company's EGC status ended on December 31, 2022 since that is the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of the common equity securities of the Company pursuant to an effective registration statement under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Company has policies, procedures and systems designed to comply with these regulations, and it reviews and documents such policies, procedures and systems to ensure continued compliance with these regulations.

Item 1A. Risk Factors

The Company's operations and financial results are subject to various risks and uncertainties, including but not limited to those described below, which could adversely affect its business, financial condition, results of operations, cash flows and the trading price of its common stock.

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Risks Related to the COVID-19 Outbreak

The economic impact of the COVID-19 outbreak could adversely affect the Company's financial condition and results of operations.

Given the ongoing and dynamic nature of the COVID-19 pandemic, including the rate of vaccine acceptance and the development of new variants, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when COVID-19 can be controlled and abated. As the result of the COVID-19 pandemic and any related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: the demand for our products and services may decline, making it difficult to grow assets and income; if the economy worsens, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; our ACL may increase if borrowers experience financial difficulties, which will adversely affect our net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; our cyber security risks may increase if a significant number of our employees are forced to work remotely; and FDIC premiums may increase if the agency experiences additional resolution costs.

Moreover, the Company's future success and profitability substantially depends on the skills of its employees, including executive officers, many of whom have held their positions with the Company for many years. The unanticipated loss or unavailability of key employees and/or a large number of employees due to the pandemic could harm the Company's ability to operate or execute its business strategy. The Company may not be successful in finding and integrating suitable replacements in the event of such employee loss or unavailability.

Risks Related to Lending Activities

A substantial portion of the Company's loan portfolio consists of CRE, including multi-family real estate loans, and commercial loans, which have a higher degree of risk than other types of loans.

At December 31, 2022, \$4.8 billion, or 99.5% of total loans, consisted of CRE and C&I loans. These portfolios have grown in recent years and the Company intends to continue to emphasize these types of lending. CRE, including multi-family real estate, and commercial loans are often larger and involve greater risks than other types of loans since payments on such loans are often dependent on the successful operation or development of the property or business involved. Accordingly, a downturn in the real estate market and/or a challenging business and economic environment may increase the Company's risk related to CRE, multi-family real estate and commercial loans. If the cash flows from business operations of our customers is reduced, the borrower's ability to repay the loan may be impaired. Further, due to the larger average size of such loans and that they are secured by collateral that is generally less readily-marketable as compared with other loan types, losses incurred on a small number of such loans could have a material adverse impact on the Company's financial condition and results of operations. If we foreclose on these loans, our holding period for the collateral typically is longer than for a single or multi-family residential property because there are fewer potential purchasers of the collateral.

In addition, CRE loan concentration is an area that has experienced heightened regulatory focus. Under CRE guidance issued by banking regulators, banks with holdings of CRE, land development, construction, and certain multi-family loans in excess of certain thresholds must employ heightened risk management practices, including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. These loans are also subject to written policies that establish certain limits and standards. Such compliance requirements imposed on the Company's CRE, multi-family or construction lending and the potential limits to the generation of these types of loans could have a material adverse effect on its financial condition and results of operations. While it is management's belief that policies and procedures with respect to the CRE portfolio have been implemented consistent with this guidance, bank regulators could require that additional policies and procedures be implemented that may result in additional costs or that may result in the curtailment of CRE lending that would adversely affect the Bank's loan originations and profitability.

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Because the Company intends to continue to increase its commercial loans, its credit risk may increase.

The Company intends to increase its portfolio of commercial loans, including working capital lines of credit, equipment financing, healthcare and medical receivables, documentary letters of credit and standby letters of credit. These loans generally have more risk than one- to four-family residential mortgage loans and CRE loans. Since repayment of commercial loans depends on the successful management and operation of borrowers' businesses, repayment of such loans can be affected by adverse conditions in the local and national economy. In addition, commercial loans generally have a larger average size as compared with other loans, and the collateral for commercial loans is generally less readily-marketable. If we foreclose on these loans, our holding period for the collateral typically is longer than for a single or multi-family residential property because there are fewer potential purchasers of the collateral. The Company's plans to increase its portfolio of these loans could result in increased credit risk in the portfolio. An adverse development with respect to one loan or one credit relationship can expose the Company to significantly greater risk of loss compared to an adverse development with respect to a one-to four-family residential mortgage loan or a CRE loan.

If the allowance for credit losses is not sufficient to cover actual loan losses, earnings could decrease.

In June 2016, the FASB issued an accounting standard update, "Financial Instruments – Credit Losses (ASC 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. The Company adopted this guidance effective January 1, 2023. For a discussion of the impact please see "*NOTE 3 – SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*" to the Company's consolidated financial statements in this Form 10-K.

Loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. The Company may experience significant credit losses, which could have a material adverse effect on its operating results. Various assumptions and judgments about the collectability of the loan portfolio are made, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of many loans. In determining the amount of the allowance for credit losses, management reviews the quality of its loan portfolio and its loss and delinquency experience and evaluates industry trends and economic conditions.

The determination of the appropriate level of allowance is subject to judgment and requires the Company to make significant estimates of current credit risks and future trends, all of which are subject to material changes. If assumptions prove to be incorrect, the ACL may not cover losses in the loan portfolio at the date of the financial statements. Significant additions to the allowance would materially decrease net income. In addition, federal and state regulators periodically review the ACL, the policies and procedures the Company uses to determine the level of the allowance and the value attributed to non-performing loans or to real estate acquired through foreclosure. Such regulatory agencies may require an increase in the ACL or the Company to recognize loan charge-offs. Any significant increase in the ACL or loan charge-offs as required by these regulatory agencies could have a material adverse effect on the results of operations and financial condition.

The performance of the Company's multi-family and mixed-use loans could be adversely impacted by regulation.

Multi-family and mixed-use loans generally involve a greater risk than one- to-four family residential loans because of legislation and government regulations involving rent control and rent stabilization, which are outside the control of the borrower or the Company, and could impair the value of the security for the loan or the future cash flows of such properties. As a result of these restrictions, it is possible that rental income on certain rent-regulated properties might not rise sufficiently over time to satisfy increases in the loan rate at repricing or increases in overhead expenses (e.g., utilities, taxes, etc.). At December 31, 2022, the Company has \$161.4 million of rent-regulated stabilized multi-family loans, which had a weighted-average LTV of 42.24% at the date of last appraisal, a weighted average debt coverage ratio of 3.34x.

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The Company could be subject to environmental risks and associated costs on its foreclosed real estate assets, which could materially and adversely affect its financial condition and results of operation.

A material portion of the Company's loan portfolio is comprised of loans collateralized by real estate. There is a risk that hazardous or toxic waste could be discovered on the properties that secure these loans. If the Company acquires such properties as a result of foreclosure, it could be held responsible for the cost of cleaning up or removing this waste, and this cost could exceed the value of the underlying properties and materially and adversely affect the Company's financial condition and results of operation.

Risks Related to Economic Conditions

Inflation can have an adverse impact on our business and on our customers. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money.

Over the past year, in response to a pronounced rise in inflation, the Federal Reserve Board has raised certain benchmark interest rates to combat inflation. As discussed below under — “Risks Related to Market Interest Rates—Interest rate shifts may reduce net interest income and otherwise negatively impact the Company’s financial condition and results of operation.” Inflationary conditions and rising market interest rates may lead to declines in the value of our investment securities, particularly those with longer maturities, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non-interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates administered by the Federal Reserve to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

A downturn in economic conditions could cause deterioration in credit quality, which could depress net income and growth.

The Company's principal economic risk is the creditworthiness of its borrowers, which is affected by the strength of the relevant business market segment, local market conditions, and general economic conditions. The Company's loan portfolio includes many real estate secured loans, demand for which may decrease during an economic downturn as a result of, among other things, an increase in unemployment, a decrease in real estate values or a slowdown in housing. If negative economic conditions develop in the New York market or the United States, the Company could experience higher delinquencies and loan charge-offs, which would adversely affect its net income and financial condition. Furthermore, to the extent that real estate collateral is obtained through foreclosure, the costs of holding and marketing real estate collateral, as well as the ultimate values obtained from disposition, could reduce earnings and adversely affect the Company's financial condition.

The Company's business and operations may be adversely affected by weak economic conditions.

The Company's business and operations, which primarily consist of lending money to customers, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, growth and profitability from the Company's lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium- and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States.

The Company's business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond the Company's control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

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A substantial majority of the Company's loans and operations are in New York, and therefore its business is particularly vulnerable to a downturn in the New York City economy.

The Company is a community banking institution that provides banking services to the local communities in the market areas in which it operates, and therefore, its ability to diversify its economic risks is limited by its local markets and economies. A large portion of the Company's business is concentrated in New York, and in New York City in particular. A significant decline in local economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond the Company's control, would likely cause an increase in the rates of delinquencies, defaults, foreclosures, bankruptcies and losses in its loan portfolio. As a result, a downturn in the local economy, generally and the real estate market specifically, could significantly reduce the Company's profitability and growth and adversely affect its financial condition.

Risks Related to Market Interest Rates

The reversal of monetary policy actions that resulted in a historically low interest rate environment may adversely affect our net interest income and profitability.

The Federal Reserve Board exercised monetary policy actions that decreased benchmark interest rates significantly, in response to the COVID-19 pandemic. The Federal Reserve Board has reversed its easy money policies given its concerns over inflation. Market interest rates have risen in response to the change in the Federal Reserve Board's monetary policies. As discussed below, the increase in market interest rates is expected to have an adverse effect on our net interest income and profitability.

Interest rate shifts may reduce net interest income and otherwise negatively impact the Company's financial condition and results of operations.

The majority of the Company's banking assets are monetary in nature and subject to risk from changes in interest rates. The Company's earnings depend, to a great extent, upon the level of its net interest income (the difference between the interest income earned on loans, investments, other interest earning assets, and the interest paid on interest bearing liabilities, such as deposits and borrowings). Changes in interest rates can increase or decrease net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes.

When interest bearing liabilities mature or reprice more quickly, or to a greater degree, than interest earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly, or to a greater degree, than interest bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and the Company's ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect the Company through, among other things, increased prepayments on its loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect the Company's net yield on interest earning assets, loan origination volume and overall results.

If market interest rates rise rapidly, interest rate caps may limit increases in the interest rates on certain adjustable-rate loans, thus limiting the upside to our net interest income. Also, certain adjustable-rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

The Company's securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. During the year ended December 31, 2022, we reported an other comprehensive loss of \$76.9 million related to net changes in unrealized losses in the AFS securities portfolio. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand.

Changes in the estimated fair value of securities may reduce stockholders' equity and net income.

At December 31, 2022, we had \$445.7 million of AFS securities. The estimated fair value of the AFS securities portfolio may change depending on the credit quality of the underlying issuer, market liquidity, changes in interest rates and other factors. Stockholders' equity is increased or decreased by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of the AFS securities portfolio, net of the related tax expense or benefit, under the category of accumulated other comprehensive income (loss). During the year ended December 31, 2022, we reported an other comprehensive loss of \$76.9 million related to net changes in unrealized losses in the AFS securities portfolio, which negatively impacted stockholders' equity, as well as book value per common share.

Risk Related to the Company's Operations

A failure in the Company's operational systems or infrastructure, or those of third parties, could impair the Company's liquidity, disrupt its businesses, result in the unauthorized disclosure of confidential information, damage its reputation and cause financial losses.

The Company's operations rely on its computer systems, networks and third-party providers for the secure processing, storage and transmission of confidential and other sensitive customer information. The Company's business, and in particular, the debit card and cash management solutions business and global payments business, is dependent on its ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Due to the breadth and geographical reach of the Company's client base, developing and maintaining its operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts.

Although the Company takes protective measures to maintain the confidentiality, integrity and security of information, its computer systems, software and networks may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact. Furthermore, the Company may not be able to ensure that all of its clients, suppliers, counterparties and other third parties have appropriate controls in place to protect themselves from cyber-attacks or to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. Given the increasingly high volume of transactions, certain errors may be repeated or compounded before they can be discovered and rectified. In addition, the increasing reliance on technology systems and networks and the occurrence and potential adverse impact of attacks on such systems and networks, both generally and in the financial services industry, have enhanced government and regulatory scrutiny of the measures taken by companies to protect against cyber-security threats. As these threats and government and regulatory oversight of associated risks continue to evolve, the Company may be required to expend additional resources to enhance or expand upon the security measures it currently maintains. Although the Company has developed, and continues to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks, a breach of its systems and global payments infrastructure or those of our fintech partners and processors could result in: losses to the Company and its customers; loss of business and/or customers; damage to its reputation; the incurrence of additional expenses (including the cost of notification to consumers, credit monitoring and forensics, and fees and fines imposed by the card networks); disruption to its business; an inability to grow its online services or other businesses; additional regulatory scrutiny or penalties; and/or exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company faces risks related to its operational, technological and organizational infrastructure.

The Company's ability to grow and compete is dependent on its ability to build or acquire and manage the necessary operational and technological infrastructure and to manage the cost of that infrastructure as it expands. Similar to other large corporations, operational risk can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons and exposure to external events. In addition, the Company is heavily dependent on the strength and capability of its technology systems, which are used both to interface with customers and manage internal financial and other systems. The Company's ability to develop and deliver

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new products and services that meet the needs of its existing customers and attract new ones depends on the functionality of its technology systems.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The Company's future success will depend in part upon its ability to address the needs of its clients by using technology to provide products and services that will satisfy client demands for convenience as well as provide secure electronic environments and create additional efficiencies as it continues to grow and expand its market area. The Company continuously monitors its operational and technological capabilities and makes modifications and improvements when it believes it will be cost effective to do so. Many of the Company's larger competitors have substantially greater resources to invest in operational and technological infrastructure. As a result, competitors may be able to offer more convenient products and services than the Company, which would put it at a competitive disadvantage.

The Company also outsources some of its operational and technological infrastructure, including modifications and improvements to these systems, to third parties. If these third-party service providers experience difficulties, fail to comply with banking regulations or terminate their services and if the Company is unable to replace them with other service providers, its operations could be interrupted. If an interruption were to continue for a significant period of time, its business, financial condition and results of operations could be adversely affected, perhaps materially. Even if the Company were able to replace the third-party providers, it may be at a higher cost, which could adversely affect its business, financial condition and results of operations.

The Company is subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject the Company to financial losses or regulatory sanctions and have a material adverse impact on its reputation. Misconduct by its employees could include concealing unauthorized activities, engaging in improper or unauthorized activities on behalf of customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Employee errors could also subject the Company to financial claims for negligence.

The Company maintains a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. If internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company relies heavily on its executive management team and other key employees and could be adversely affected by the unexpected loss of their services.

The Company's success depends in large part on the performance of its key personnel, as well as on its ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute its business plan may be lengthy. The Company may not be successful in retaining its key employees, and the unexpected loss of services of one or more of key personnel could have a material adverse effect on its business because of their skills, knowledge of primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any key personnel should become unavailable for any reason, the Company may not be able to identify and hire qualified persons on acceptable terms, or at all, which could have a material adverse effect on the business, financial condition, results of operations and future prospects of the Company.

If the Company's enterprise risk management framework is not effective at mitigating interest rate risk, market risk and strategic risk, the Company could suffer unexpected losses and its results of operations could be materially adversely affected.

The Company's enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. The Company has established processes and procedures intended to

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identify, measure, monitor and report the types of risk to which it is subject, including credit, liquidity, operational, regulatory compliance and reputational risks. However, as with any risk management framework, there are inherent limitations to these risk management strategies as there may exist, or develop in the future, risks that have not been appropriately anticipated or identified. If the Company's risk management framework proves ineffective, it could suffer unexpected losses and its business and results of operations could be materially adversely affected.

A lack of liquidity could adversely affect the Company's financial condition and results of operations.

Liquidity is essential to the Company's business. The Company relies on its ability to generate deposits and effectively manage the repayment and maturity schedules of loans to ensure that there is adequate liquidity to fund its operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. The Company's most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the FRB or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Company would lose a relatively low-cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and borrowings from the FHLB of New York. The Company also has an available line of credit with the FRBNY discount window. The Company also may borrow funds from third-party lenders, such as other financial institutions. The Company's access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Company's business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company.

Any decline in available funding could adversely impact the Company's ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as repaying borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

Other Risks Related to the Company's Business

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new financial products or services within existing lines of business. Substantial risks and uncertainties are associated with developing and marketing new lines of business or new products or services, particularly in instances where markets are not fully developed, and we may be required to invest significant time and management and capital resources in connection with such new lines of business or new products or services. External factors, such as regulatory reception, compliance with regulations and guidance, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service may be expensive to implement and could also have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could reduce our revenues and potentially generate losses.

The Company may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the LIBOR. The overnight and 1-, 3-, 6- and 12-month USD LIBOR settings will

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cease to be published or cease to be representative after June 30, 2023. All other LIBOR settings ceased to be published or to be representative as of December 31, 2021. In the U.S., the Alternative Reference Rates Committee of the FRB and the FRBNY identified the SOFR as an alternative U.S. dollar reference interest rate.

The Company has a significant number of loans, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates may differ from those referencing LIBOR. The transition may change the Company's market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Additionally, banking regulators have stated that the failure to adequately prepare for LIBOR's discontinuance could undermine financial stability and an institution's safety and soundness and create litigation, operational and consumer protection risks. Furthermore, failure to adequately manage this transition process with customers could adversely impact the Company's reputation or could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is exposed to the risks of natural disasters and global market disruptions.

The Company handles a substantial volume of customer and other financial transactions every day. Its financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online and mobile banking, automated teller machines, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond its control, including major infrastructure outages, natural disasters or events arising from local or larger scale political or social matters, including terrorist acts, pandemics, and cyber-attacks. Operational risk exposures could adversely impact the Company's results of operations, liquidity and financial condition, and cause reputational harm.

Additionally, global markets may be adversely affected by natural disasters, the emergence of widespread health emergencies or pandemics, cyber-attacks or campaigns, military conflict, terrorism or other geopolitical events. Global market disruptions may affect the Company's business liquidity. Also, any sudden or prolonged market downturn in the United States or abroad, as a result of the above factors or otherwise could result in a decline in revenue and adversely affect the Company's results of operations and financial condition, including capital and liquidity levels.

Risks Related to the Company's Global Payments Business

Regulatory scrutiny of BaaS solutions and related technology considerations has recently increased.

We provide global payments infrastructure access to our fintech partners, which includes serving as an issuing bank for third-party managed prepaid and debit card programs nationwide and providing other financial services infrastructure, including cash settlement and custodian deposit services. Recently, federal bank regulators have increasingly focused on the risks related to bank and fintech company partnerships, raising concerns regarding risk management, oversight, internal controls, information security, change management, and information technology operational resilience. This focus is demonstrated by recent regulatory enforcement actions against other banks that have allegedly not adequately addressed these concerns while growing their BaaS offerings. Additionally, there are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program manager. We could be subject to additional regulatory scrutiny with respect to that portion of our business that could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company. See "*Risk Factors — The Company and the Bank's business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment and the laws and regulations that govern it.*"

The Company faces intense competition in the global payments industry.

The global payments industry is highly competitive, continuously changing, highly innovative, and increasingly subject to regulatory scrutiny and oversight. Many areas in which the Company competes evolve rapidly with innovative and disruptive technologies, shifting user preferences and needs, price sensitivity of merchants and consumers, and frequent introductions of new products and services. Competition also may intensify as new competitors emerge, businesses enter

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into business combinations and partnerships, and established companies in other segments expand to become competitive with various aspects of our business.

The Company competes with a wide range of businesses, some of which are larger operationally and/or financially, have larger customer bases, greater brand recognition, longer operating histories, a dominant or more secure position, broader geographic scope, volume, scale, resources, and market share than the Company, or offer products and services that the Company does not offer, which may provide them significant competitive advantages. Some competitors may also be subject to less burdensome regulatory requirements or may be smaller or younger companies that may be more agile and effective in responding quickly to user needs, technological innovations, and legal and regulatory changes. These competitors may devote greater resources to the development, promotion, and sale of products and services, and/or offer lower prices or more effectively offer their own innovative programs, products, and services. If the Company is not able to differentiate its products and services from those of its competitors, drive value for customers, or effectively and efficiently align its resources with its goals and objectives, the Company may not be able to compete effectively in the market.

We derive a percentage of our deposits from deposit accounts generated through our BaaS relationships.

Deposit accounts acquired through these relationships totaled \$1.2 billion, or 23.5% of total deposits, at December 31, 2022. We provide oversight over these relationships, which must meet all internal and regulatory requirements. We may exit relationships where such requirements are not met or be required by our regulators to exit such relationships. Also, our partner(s) could terminate a relationship with us for many reasons, including being able to obtain better terms from another provider or dissatisfaction with the level or quality of our services. If a relationship were to be terminated, it could materially reduce our deposits and impact our liquidity. If we cannot replace such deposits, we may be required to seek alternative and potentially higher rate funding sources as compared to the existing relationship resulting in an increase in interest expense. We may also find it necessary to sell securities or other assets to meet funding needs, which could result in realized losses.

Changes in card network fees could impact operations.

Card networks periodically increase the fees (known as interchange fees) that are charged to acquirers and that the Company charges to its merchants. It is possible that competitive pressures will result in the Company absorbing a portion of such increases in the future, which would increase its costs, reduce profit margin and adversely affect its business and financial condition. In addition, the card networks require certain capital requirements. An increase in the required capital level would further limit the use of capital for other purposes.

The Company's business could suffer if there is a decline in the use of prepaid cards as a payment mechanism or if there are adverse developments with respect to the prepaid financial services industry in general.

As the prepaid financial services industry evolves, consumers may find prepaid financial services to be less attractive than traditional or other financial services. If consumers do not continue or increase their usage of prepaid cards, including making changes in the way prepaid cards are loaded, the Company's operating revenues and prepaid card deposits may remain at current levels or decline. Any projected growth for the industry may not occur or may occur more slowly than estimated. If consumer acceptance of prepaid financial services does not continue to develop or develops more slowly than expected or if there is a shift in the mix of payment forms away from the Company's products and services, it could have a material adverse effect on the Company's financial position and results of operations.

The potential for fraud in the card payment industry is significant.

Issuers of prepaid and debit cards and other companies have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects individuals and businesses. Losses from various types of fraud have been substantial for certain card industry participants. The Bank in many cases has indemnification agreements with third parties; however, such indemnifications may not fully cover losses. In addition, there are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program

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manager. See “*Risk Factors — The Company and the Bank’s business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment and the laws and regulations that govern it.*”

A portion of the Company’s business provided banking services to digital currency businesses and their customers, and changes in the digital currency industry or the digital currency businesses we provided services to may have adversely affected our growth and profitability or damaged our reputation.

The Company provided cash management solutions to digital currency businesses and their customers. The Company recently announced that it will fully exit its digital currency business due to recent developments in the crypto-asset industry, material changes in the regulatory environment regarding banks’ involvement in crypto-asset related businesses, and a strategic assessment of the business case for the Company’s further involvement at this time. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Events.*” As a portion of our business provided banking services to digital currency businesses and their customers, changes in the regulatory environment, individually or in the aggregate, could have had a material adverse effect on our profitability, financial condition and growth of our business, or damage our reputation. Regulatory and legal requirements applicable to the prepaid and debit card industry are unique and frequently changing.

Achieving and maintaining compliance with frequently changing legal and regulatory requirements requires a significant investment in qualified personnel, hardware, software and other technology platforms, external legal counsel and consultants and other infrastructure components. These investments may not ensure compliance or otherwise mitigate risks involved in this business. Our failure to satisfy regulatory mandates applicable to prepaid financial products could result in actions against us by our regulators, legal proceedings being instituted against us by consumers, or other losses, each of which could reduce our earnings or result in losses, make it more difficult to conduct our operations, or prohibit us from conducting specific operations. Other risks related to prepaid cards include competition for prepaid, debit and other payment mediums, possible changes in the rules of networks, such as Visa and MasterCard and others, in which the Bank operates and state regulations related to prepaid cards including escheatment.

Risks Related to Competitive Matters

The Company operates in a highly competitive industry and faces significant competition from other financial institutions and financial services providers, the result of which may decrease growth or profits.

The Company’s market area contains not only a large number of community and regional banks, but also a significant presence of the country’s largest commercial banks and a growing presence of fintech financial services companies. The Company competes with other state and national financial institutions, savings and loan associations, savings banks, credit unions and other companies offering financial services. Some of these competitors have a longer history of successful operations nationally and in the New York market area, greater ties to businesses, more expansive banking relationships, more established depositor bases, fewer regulatory constraints, better technology, and lower cost structures than the Company does. Competitors with greater resources may possess an advantage through their ability to maintain numerous banking locations in more convenient sites, conduct more extensive promotional and advertising campaigns, or operate a more developed technology platform. Due to their size, many competitors may offer a broader range of products and services, as well as better pricing for certain products and services than the Company can offer. Further, increased competition among financial services companies due to the continued consolidation of financial institutions may adversely affect the Company’s ability to market its products and services.

In addition, the Company’s legally mandated lending limits are lower than those of certain of its competitors that have greater capital. Lower lending limits may discourage borrowers with lending needs that exceed these limits from doing business with the Company. The Company may try to serve such borrowers by selling loan participations to other financial institutions; however, this strategy may not succeed.

Risks Related to Business Strategy

The Company may not be able to grow and if it does, it may have difficulty managing that growth.

The Company's ability to grow depends, in part, upon its ability to expand its market share, successfully attract deposits, and identify loan and investment opportunities as well as opportunities to generate fee-based income. The Company may not be successful in increasing the volume of loans and deposits at acceptable levels and upon terms it finds acceptable. The Company may also not be successful in expanding its operations organically or through strategic acquisitions while managing the costs and implementation risks associated with this growth strategy.

The Company expects to grow the number of employees and customers and the scope of its operations, but it may not be able to sustain its historical rate of growth or continue to grow its business at all. Its success will depend upon the ability of its officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent customer relationships, and to hire, train and manage employees. In the event that the Company is unable to perform all these tasks and meet these challenges effectively, its growth prospects and earnings could be adversely impacted.

Risks Related to Accounting Matters

Changes in accounting standards could materially impact the Company's financial statements.

From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the bodies that interpret the accounting standards (such as banking regulators, outside auditors or management) may change their interpretations or positions on how these standards should be applied. These changes may be beyond the Company's control, can be hard to predict, and can materially impact how it records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in it needing to revise or restate prior period financial statements. For more information on changes in accounting standards, see "NOTE 3 –SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS" to the Company's consolidated financial statements in this Form 10-K.

The FASB issued an accounting standard update that will result in a significant change in how the Company recognizes credit losses, which may have a material impact on its financial condition or results of operations.

In June 2016, the FASB issued an accounting standard update, "Financial Instruments – Credit Losses (ASC 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. The Company adopted this guidance effective January 1, 2023. For a discussion of the impact please see "NOTE 3 –SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS" to the Company's consolidated financial statements in this Form 10-K. Under the CECL model, the Company is required to present certain financial assets carried at amortized cost, such as loans held for investment and HTM debt securities, at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first entered into and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the Company expects that utilization of the CECL model will materially affect how it determines the ACL and the CECL model may create more volatility in the level of the ACL. If the Company is required to materially increase its level of the ACL for any reason, such increase could adversely affect its business, financial condition and results of operations.

Risk Related to Laws and Regulation and Their Enforcement

The Company and the Bank's business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment and the laws and regulations that govern it.

The Company and the Bank are subject to extensive examination, supervision and comprehensive regulation by various federal and state agencies that govern almost all aspects of their operations. These laws and regulations are not intended to protect the Company's stockholders. Rather, these laws and regulations are intended to protect customers, depositors, the DIF and the overall financial stability of the U.S economy. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which the Company or the Bank can engage, limit the dividend or distributions that the Bank can pay to the Company, restrict the ability of institutions to guarantee the Company's debt, and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in capital than GAAP would require.

Additionally, there are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program manager. These include investigations as to which the Company is a subject by the FRB and certain state authorities, including the NYSDFS. During the early stages of the COVID-19 pandemic, third parties used this prepaid debit card product to establish unauthorized accounts and to receive unauthorized government benefits payments, including unemployment insurance benefits payments made pursuant to the CARES Act from many states. The Company ceased accepting new accounts from this program manager in July of 2020 and has exited its relationship with this program manager. The Company is cooperating in these investigations and continues to review this matter. The foregoing could result in enforcement or other actions against the Company and the Bank including civil money penalties and remedial measures.

The Company is in discussions with the FRB and the NYSDFS with respect to consensual resolutions of their investigations. Although the Company is unable at this time to determine the final terms on which the FRB and NYSDFS investigations will be resolved or the timing of such resolutions, the Company accrued a charge of \$35.0 million during the fourth quarter of 2022 to establish a reserve for what the Company believes is a reasonable estimate of the probable loss associated with the FRB and NYSDFS settlements. If final settlements with the FRB and the NYSDFS are not reached and the FRB and the NYSDFS do bring public enforcement actions, such actions and their resolution, as well as any other matter arising out of the foregoing program, could have a materially adverse effect on the Company and the Bank's assets, business, cash flows, financial condition, liquidity, prospects and/or results of operations.

Compliance with these laws and regulations is difficult and costly, and changes to these laws and regulations often impose additional compliance costs. Failure to comply with these laws and regulations could subject the Company and/or the Bank to restrictions on their business activities, fines and other penalties, the commencement of informal or formal enforcement actions against them, and other negative consequences, including reputational damage, any of which could adversely affect their business, financial condition, results of operations, capital base and the price of its securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive.

The Dodd-Frank Act, among other things, imposed higher capital requirements on bank holding companies and changed the rules regarding FDIC insurance premiums. Compliance with the Dodd-Frank Act and its implementing regulations has and will continue to result in additional operating and compliance costs that could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company.

Legislative and regulatory actions may increase the Company's costs and impact its business, governance structure, financial condition or results of operations.

Federal and state regulatory agencies frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted could: expose the Company to additional costs, including increased compliance costs; impact the profitability of the Company's business activities; limit the fees we may charge; increase the ability of non-banks to offer competing financial services and products; change deposit insurance assessments; require more oversight; or change certain of its business practices, including the ability to offer new products, obtain financing, attract deposits, make loans

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and achieve satisfactory interest rate spreads. These changes may also require the Company to invest significant management attention and resources to make any necessary changes to operations and could have an adverse effect on its business, financial condition and results of operations.

Federal income tax treatment of corporations and other federal and state tax provisions may be clarified and/or modified by legislative, administrative or judicial changes or interpretations at any time. Any such changes could adversely affect the Company, either directly, or indirectly as a result of effects on the Company's customers.

Monetary policies and regulations of the FRB could adversely affect the business, financial condition and results of operations of the Company.

In addition to being affected by general economic conditions, the Company's earnings and growth are affected by the policies of the FRB. An important function of the FRB is to regulate the money supply and credit conditions. Among the instruments used by the FRB to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to combat inflation and influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon the Company's business, financial condition and results of operations cannot be predicted.

Non-compliance with the USA PATRIOT Act, BSA, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and the BSA require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company's headquarters are located at 99 Park Avenue, New York, New York. The Company has six banking centers – four are in Manhattan, New York, one is in Brooklyn, New York and one is in Long Island, New York. The Company believes that current facilities at its branches are adequate to meet its present and foreseeable needs.

We lease a property in Florida that is utilized as a loan production office and a property in New Jersey that is utilized as an administrative office. We also lease a property in Kentucky that is utilized as office space for our Global Payments Group. All the leases on these properties expire at various dates through 2035.

As of December 31, 2022, each of the Company's offices and banking centers are leased, except for 1302-13th Avenue Brooklyn, which is to be used in the future as its Brooklyn banking center.

Item 3. Legal Proceedings

The Company is subject to certain pending and threatened legal actions that arise out of the normal course of business. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to the business

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(including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws), the Company, like all banking organizations, is subject to heightened legal and regulatory compliance and litigation risk.

The Company is in discussions with the FRB and the NYSDFS with respect to consensual resolutions of their investigations. Although the Company is unable at this time to determine the final terms on which the FRB and NYSDFS investigations will be resolved or the timing of such resolutions, the Company accrued a charge of \$35.0 million during the fourth quarter of 2022 to establish a reserve for what the Company believes is a reasonable estimate of the probable loss associated with the FRB and NYSDFS settlements. If final settlements with the FRB and the NYSDFS are not reached and the FRB and the NYSDFS do bring public enforcement actions, such actions and their resolution, as well as any other matter arising out of the foregoing program, could have a materially adverse effect on the Company and the Bank's assets, business, cash flows, financial condition, liquidity, prospects and/or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's shares of common stock are traded on the New York Stock Exchange under the symbol "MCB". The approximate number of holders of record of the Company's common stock as of February 23, 2023 was 75. The Company's common stock began trading on the New York Stock Exchange on November 8, 2017. The Company has not declared any dividends to date.

The Company has not historically declared or paid cash dividends on its common stock. Any future determination to pay dividends on the Company's common stock will be made by its Board of Directors and will depend on a number of factors, including:

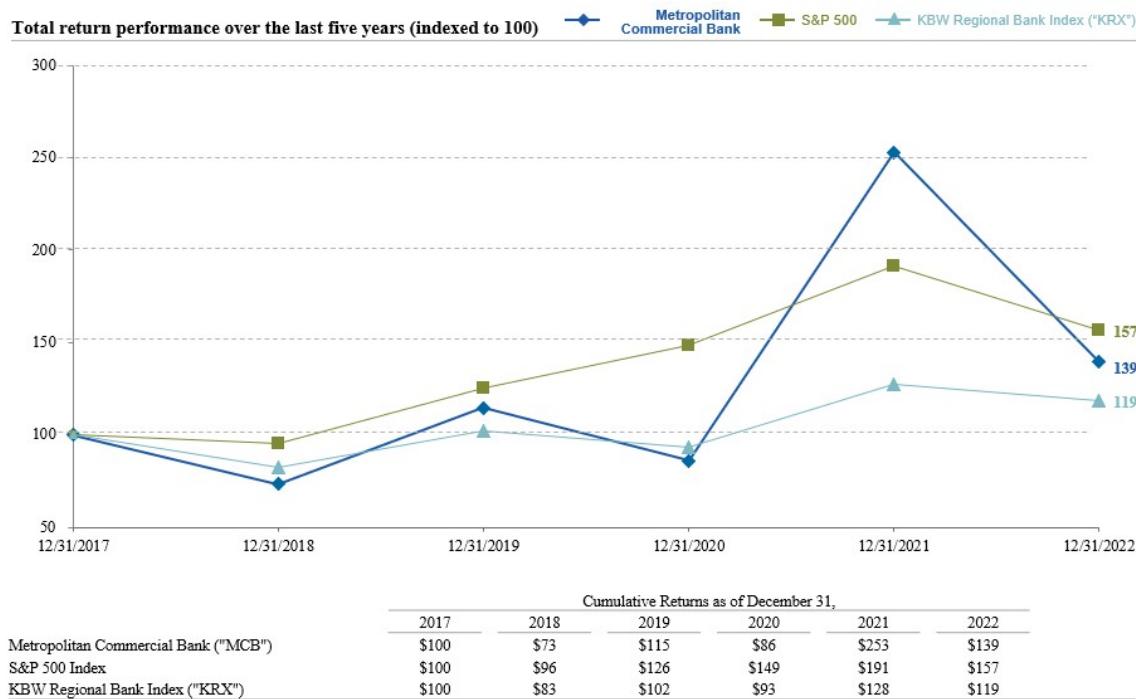
- historical and projected financial condition, liquidity and results of operations;
- the Company's capital levels and requirements;
- statutory and regulatory prohibitions and other limitations;
- any contractual restriction on the Company's ability to pay cash dividends, including pursuant to the terms of any of its credit agreements or other borrowing arrangements;
- business strategy;
- tax considerations;
- alternative use of funds, such as for any potential acquisitions;
- general economic conditions; and
- other factors deemed relevant by the Board of Directors.

There were no sales of unregistered securities or repurchases of shares of common stock during the year ended December 31, 2022.

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Performance Graph

The following graph compares, for the period from December 31, 2017 through December 31, 2022, the cumulative shareholder return (change in the stock price plus reinvested dividends) for the common stock of the Company with the cumulative return for the (i) Standard and Poor's 500 ("S&P 500") Index and (ii) KBW Bank Index. The performance reflected below assumes that \$100 was invested in our common stock and each of the indices at their closing prices on December 31, 2017. The performance of our common stock reflected below is not necessarily indicative of our future performance.



Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

The Company is a bank holding company headquartered in New York, New York and registered under the BHC Act. Through its wholly owned bank subsidiary, Metropolitan Commercial Bank (the "Bank"), a New York state chartered bank, the Company provides a broad range of business, commercial and retail banking products and services to small businesses, middle-market enterprises, public entities and affluent individuals in the New York metropolitan area. In addition, the Global Payments Group is an established leader in BaaS to a myriad of domestic and international fintech companies. For an analysis of 2021 results compared with 2020 results, see Part II, Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the annual report on Form 10-K for the year ended December 31, 2021 filed with the SEC.

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The Company's primary lending products are CRE, including multi-family loans, and C&I loans. Substantially all loans are secured by specific items of collateral including business and consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flows from operations of commercial enterprises. The Company's primary deposit products are checking, savings, and term deposit accounts, all of which are insured by the FDIC under the maximum amounts allowed by law. In addition to traditional commercial banking products, the Company offers corporate cash management and retail banking services and is an established leader in BaaS through its Global Payments Group ("global payments business"). The Global Payments Group provides global payments infrastructure to its fintech partners, which includes serving as an issuing bank for third-party debit card programs nationwide and providing other financial infrastructure, including cash settlement and custodian deposit services. The Company has developed various deposit gathering strategies, which generate the funding necessary to operate without a large branch network. These activities, together with six strategically located banking centers, generate a stable source of deposits and a diverse loan portfolio with attractive risk-adjusted yields.

The Company is focused on organically growing and expanding its position in the New York metropolitan area and growing its business outside of New York through growth of its New York-based customers and their businesses as they expand in other states. Through an experienced team of commercial relationship managers and its integrated, client-centric approach, the Company has grown market share by deepening existing client relationships and continually expanding its client base through referrals and the ability to offer alternatives to traditional retail banking products. The Company has converted many of its commercial lending clients into full retail relationship banking clients. Given the size of the market in which the Company operates and its differentiated approach to client service, there is significant opportunity to grow its loan and deposits. By combining the high-tech service and relationship-based focus of a community bank with an extensive suite of financial products and services, the Company is well-positioned to continue to capitalize on the significant growth opportunities available in the New York metropolitan area.

Recent Events

In January 2023, the Company announced that it will fully exit the digital currency business, commonly referred to as the crypto-asset related business. This decision followed a careful review by the Board of Directors and management and reflected recent developments in the crypto-asset industry, material changes in the regulatory environment regarding banks' involvement in digital currency business, and a strategic assessment of the business case for the Company's further involvement at this time. The Company expects minimal financial impact from the exit of this business. The Company has four active institutional crypto-asset related clients where the Company's activities are limited to providing debit card, payment, and account services. The Company has no loans outstanding to any of these clients, does not hold crypto-assets on its balance sheet and does not market or sell crypto-assets to its customers. The process of closing out the Company's relationships with these clients in an orderly fashion has commenced and is expected to be completed during 2023. This determination will not affect customers' existing ability to send funds to, or receive funds from, crypto-asset companies they choose to do business with, or the Company's service to customers that do not have crypto-asset related activity as a principal line of business.

There are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program manager. These include investigations as to which the Company is a subject by the FRB and certain state authorities, including the NYSDFS. During the early stages of the COVID-19 pandemic, third parties used this prepaid debit card product to establish unauthorized accounts and to receive unauthorized government benefits payments, including unemployment insurance benefits payments made pursuant to the CARES Act from many states. The Company ceased accepting new accounts from this program manager in July of 2020 and has exited its relationship with this program manager. The Company is cooperating in these investigations and continues to review this matter. The foregoing could result in enforcement or other actions against the Company and the Bank including civil money penalties and remedial measures.

The Company is in discussions with the FRB and the NYSDFS with respect to consensual resolutions of their investigations. Although the Company is unable at this time to determine the final terms on which the FRB and NYSDFS investigations will be resolved or the timing of such resolutions, the Company accrued a charge of \$35.0 million during the fourth quarter of 2022 to establish a reserve for what the Company believes is a reasonable estimate of the probable loss and expenses associated with the FRB and NYSDFS settlements. If final settlements with the FRB and the NYSDFS

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are not reached and the FRB and the NYSDFS bring public enforcement actions, such actions and their resolution, as well as any other matter arising out of the foregoing program, could have a materially adverse effect on the Company and the Bank's assets, business, cash flows, financial condition, liquidity, prospects and/or results of operations.

In the third quarter of 2022, the Company terminated its interest rate cap and monetized the gain on the derivative. In 2020, the Company had entered into an interest rate cap derivative contract as a part of its asset liability management strategy to help manage its interest rate risk position. The interest rate cap was designated as a cash flow hedge of certain deposit liabilities. The unrecognized value of \$12.7 million at termination will be released from Accumulated other comprehensive income and recorded as a credit to Licensing fees expense through March 2025.

On March 15, 2022, the Company redeemed the entire \$25.0 million principal balance, plus accrued interest, of its outstanding subordinated notes. The subordinated notes were scheduled to mature on March 15, 2027 and had an interest rate of 6.25% per annum.

Critical Accounting Policies

A summary of accounting policies is provided in Note 2 to the consolidated financial statements included in this report. Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes the Company's most critical accounting policy, which involves the most complex or subjective decisions or assessments, is as follows:

Allowance for Loan Losses

The ALLL has been determined in accordance with GAAP. The Company is responsible for the timely and periodic determination of the amount of the ALLL. Management believes that the ALLL is adequate to cover specifically identifiable loan losses, as well as estimated losses inherent in the Company's portfolio for which certain losses are probable but not specifically identifiable.

Although management evaluates available information to determine the adequacy of the ALLL, the level of allowance is an estimate which is subject to significant judgment and short-term change. Because of uncertainties associated with local and national economic, operating, regulatory and other conditions, the impact of the COVID-19 pandemic, collateral values and future cash flows from the loan portfolio, it is possible that a material change could occur in the ALLL in the near term. The evaluation of the adequacy of loan collateral is often based upon estimates and appraisals. Because of changing economic conditions, the valuations determined from such estimates and appraisals may also change. Accordingly, the Company may ultimately incur losses that vary from management's current estimates. Adjustments to the ALLL will be reported in the period in which such adjustments become known and can be reasonably estimated. All loan losses are charged to the ALLL when the loss actually occurs or when the collectability of the principal is unlikely. Recoveries are credited to the allowance at the time of recovery. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. As a result of such examinations, the Company may need to recognize additions to the ALLL based on the regulators' judgments about information available to them at the time of such examination.

For further discussion of the ALLL, see "*Business – Asset Quality – Allowance for Loan Losses.*"

The Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (ASC 326) effective January 1, 2023, which requires the measurement of all expected credit losses for financial assets held at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. See "*Risk Factors – Risks Related to Accounting Matters – The FASB issued an accounting standard update that will result in a significant change in how the Company recognizes credit losses, which may have a material impact on its financial condition or results of operations.*"

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Recently Issued Accounting Standards

For a discussion of the impact of recently issued accounting standards, please see “*NOTE 3 –SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*” to the Company’s consolidated financial statements in this Form 10-K.

Selected Financial Information

The following table includes selected financial information for the Company for the periods indicated:

	At or for the year ended December 31,		
	2022	2021	2020
Performance Ratios			
Return on average assets	0.90 %	1.06 %	1.02 %
Return on average equity	10.27	14.65	12.31
Net interest spread ⁽¹⁾	2.82	2.41	2.83
Net interest margin ⁽²⁾	3.49	2.77	3.26
Average interest-earning assets to average interest-bearing liabilities	238.26	224.81	189.28
Non-interest expense/average assets	2.25	1.53	1.93
Efficiency ratio	58.16	48.32	52.51
Average equity to average total assets	8.74	7.22	8.30
Earnings per Share			
Basic earnings per common share	\$ 5.42	\$ 6.64	\$ 4.76
Diluted earnings per common share	5.29	6.45	4.66

(1) Determined by subtracting the weighted average cost of total interest-bearing liabilities from the weighted average yield on total interest-earning assets.

(2) Determined by dividing net interest income by total average interest-earning assets.

Discussion of Financial Condition

The Company had total assets of \$6.3 billion at December 31, 2022, a decrease of 11.9% from December 31, 2021.

Total cash and cash equivalents were \$257.4 million at December 31, 2022, a decrease of \$2.1 billion, or 89.1%, from December 31, 2021. The decrease reflected the \$1.1 billion deployment of cash into loans and securities and the \$1.2 billion outflow of deposits.

Investments

Total securities were \$958.2 million at December 31, 2022, an increase of 0.8% from December 31, 2021. The change reflects the \$207.4 million purchase of AFS and HTM securities, which was partially offset by the \$121.4 million paydown of AFS and HTM securities and the \$76.9 million increase in unrealized losses on AFS securities reflecting the prevailing interest rate environment.

The following table sets forth the stated maturities and weighted average yields of investment securities, excluding equity securities, at December 31, 2022. The table does not include the effect of prepayments or scheduled principal amortization. The weighted average yield for each group of securities was weighted by the amortized cost of the securities in the group. Tax-exempt securities, if any, were presented on a tax-equivalent basis, using a federal tax rate of 21%.

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(dollars in thousands)	Due Within 1 Year		Due After 1 Through 5 Years		Due After 5 Through 10 Years		Due After 10 Years		Total		
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Fair Value	Yield
Available-for-sale											
U.S. Government agency securities	\$ —	— %	\$ 52,996	0.63 %	\$ 10,000	1.10 %	\$ 5,000	1.68 %	\$ 67,996	\$ 59,372	0.78 %
U.S. State and Municipal securities	—	—	—	—	—	—	11,649	1.87	11,649	9,212	1.87
Residential MBS	—	—	1,740	1.84	8,270	1.72	403,988	1.49	413,998	338,548	1.49
Commercial MBS	—	—	—	1.43	17,773	3.50	19,296	2.93	37,069	34,850	3.20
Asset-backed securities	—	—	—	—	—	—	3,953	5.34	3,953	3,765	5.34
Total	<u>\$ —</u>	<u>— %</u>	<u>\$ 54,736</u>	<u>0.67 %</u>	<u>\$ 36,043</u>	<u>2.42 %</u>	<u>\$ 443,886</u>	<u>1.60 %</u>	<u>\$ 534,665</u>	<u>\$ 445,747</u>	<u>1.56 %</u>
Held-to-maturity											
U.S. Treasury securities	\$ —	— %	\$ 29,852	1.03 %	\$ —	— %	\$ —	— %	\$ 29,852	\$ 27,629	1.03 %
U.S. State and Municipal securities	—	—	—	—	—	—	15,814	2.19	15,814	13,205	2.19
Residential MBS	—	—	—	—	1,394	1.90	455,254	1.93	456,648	389,621	1.93
Commercial MBS	—	—	—	—	8,111	1.39	—	—	8,111	6,835	1.39
Total	<u>\$ —</u>	<u>— %</u>	<u>\$ 29,852</u>	<u>1.03 %</u>	<u>\$ 9,505</u>	<u>1.46 %</u>	<u>\$ 471,068</u>	<u>1.94 %</u>	<u>\$ 510,425</u>	<u>\$ 437,290</u>	<u>1.88 %</u>

There were \$25.0 million and \$0.0 securities pledged to the FRBNY discount window at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Company's securities portfolio primarily consisted of investment grade mortgage-backed securities and collateralized mortgage obligations issued by government agencies.

Other-Than-Temporary Impairment

Each reporting period, the Company evaluates its AFS and HTM securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary. OTTI is required to be recognized if: (1) the Company intends to sell the security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the impairment is recognized as OTTI, resulting in a realized loss that is charged to earnings through a reduction in non-interest income. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes.

The unrealized losses of securities at December 31, 2022 and 2021 were primarily due to the changes in market interest rates subsequent to purchase. The Company does not consider these securities to be other-than-temporarily impaired since the decline in market value was attributable to changes in interest rates and not credit quality. In addition, the Company does not intend to sell and does not believe that it is more likely than not that it will be required to sell these investments until there is a full recovery of the unrealized loss, which may be at maturity. As a result, no impairment loss was recognized during the years ended December 31, 2022 or 2021.

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Loans

Loans are the Company's primary interest-earning asset.

Loan Portfolio

Total loans, net of deferred fees and unamortized costs, were \$4.8 billion at December 31, 2022, an increase of 29.7% from December 31, 2021. The increase primarily included increases of \$895.1 million in CRE loans (including owner occupied) and \$262.1 million in C&I loans. For the year ended December 31, 2022, the Company's loan production was \$1.8 billion, as compared to \$1.2 billion for the year ended December 31, 2021. As of December 31, 2022, total loans consisted primarily of CRE, including multi-family mortgage loans, and C&I. At December 31, 2022, the Company's loan portfolio includes loans to the following industries (dollars in thousands):

	At December 31, 2022	
	Balance	% of Total Loans ⁽¹⁾
CRE ⁽²⁾		
Skilled Nursing Facilities	\$ 1,216,902	25.14 %
Multi-family	468,540	9.68
Retail	330,164	6.82
Mixed use	356,880	7.37
Office	387,591	8.01
Hospitality	189,609	3.92
Construction	143,693	2.97
Other	764,678	15.80
Total CRE	<u><u>\$ 3,858,057</u></u>	<u><u>79.71 %</u></u>
C&I ⁽³⁾		
Healthcare	\$ 100,170	2.07 %
Skilled Nursing Facilities	119,206	2.46
Finance & Insurance	229,262	4.74
Wholesale	48,868	1.01
Manufacturing	53,260	1.10
Other	354,215	7.32
Total C&I	<u><u>\$ 904,981</u></u>	<u><u>18.70 %</u></u>

(1) Net of deferred fees and costs

(2) CRE, not including one-to four-family loans and participations

(3) Excluding premiums and overdraft adjustments

The largest concentration in the loan portfolio is to the healthcare industry, which amounted to \$1.4 billion, or 29.7% of total loans, at December 31, 2022, including \$1.3 billion in loans to skilled nursing facilities ("SNF").

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The following table sets forth certain information at December 31, 2022 regarding the amount of contractual loan maturities during the periods indicated. The table does not include any estimate of prepayments that significantly shorten the average loan life and may cause actual repayment experience to differ from that shown below (in thousands).

	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Multi-family</u>	<u>One-to Four-Family</u>	<u>Commercial and Industrial</u>	<u>Consumer Loans</u>	<u>Total</u>
Due within 1 year	\$ 811,733	\$ 89,820	\$ 72,144	\$ —	\$ 199,597	\$ 416	\$ 1,173,710
After 1 year through 5 years	2,093,162	53,873	296,125	1,841	620,760	2,521	3,068,282
After 5 years through 15 years	349,613	—	100,271	48,728	88,259	21,746	608,617
After 15 years	—	—	—	2,638	—	248	2,886
Total	\$ 3,254,508	\$ 143,693	\$ 468,540	\$ 53,207	\$ 908,616	\$ 24,931	\$ 4,853,495

The following table sets forth the dollar amount of loans at December 31, 2022 that are due after one year and have either fixed interest rates or floating interest rates (dollars in thousands):

	<u>At December 31, 2022</u>		
	<u>Fixed Rate Loans</u>	<u>Floating Rate Loans</u>	<u>Total</u>
Real Estate			
Commercial	\$ 1,790,159	\$ 652,616	\$ 2,442,775
Construction	20,090	33,783	53,873
Multi-family	343,417	52,979	396,396
One-to four-family	49,916	3,291	53,207
Commercial and industrial	439,624	269,395	709,019
Consumer	8,082	16,433	24,515
Total	\$ 2,651,288	\$ 1,028,497	\$ 3,679,785

Asset Quality

Non-performing loans decreased to \$24,000 at December 31, 2022 from \$10.3 million at December 31, 2021, primarily due to the payoff of one CRE loan, which was adversely affected by COVID-19. The table below sets forth key asset quality ratios:

	<u>At or for the year ended December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Asset Quality Ratios			
Non-performing loans to total loans	— %	0.28 %	0.20 %
Allowance for loan losses to total loans	0.93	0.93	1.13
Non-performing loans to total assets	—	0.14	0.15
Allowance for loan losses to non-performing loans	N.M	337.6	554.2
Allowance for loan losses to non-accrual loans	N.M	346.6	630.0
Non-accrual loans to total loans	—	0.27	0.18
Ratio of net charge-offs (recoveries) to average loans outstanding in aggregate	—	0.13	0.01

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Allowance for Loan Losses

The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans. The allowance is established based on management's evaluation of the probable incurred losses inherent in the Company's portfolio in accordance with GAAP. In June 2016, the FASB issued an accounting standard update, "Financial Instruments – Credit Losses (ASC 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. The Company adopted this guidance effective January 1, 2023. See "*NOTE 3 – SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*" to the Company's consolidated financial statements in this Form 10-K.

The ALLL is increased through a provision for loan losses charged to operations. Loans are charged against the ALLL when management believes that the collectability of all or a portion of the principal is unlikely. Management's evaluation of the adequacy of the ALLL is performed on a quarterly basis and takes into consideration such factors as general economic conditions, the credit risk grade assigned to the loan, historical loan loss experience and review of specific impaired loans.

The ALLL was \$44.9 million at December 31, 2022, as compared to \$34.7 million at December 31, 2021. The ratio of ALLL to total loans was 0.93% at December 31, 2022 and 2021. The increase in the ALLL was primarily due to loan growth.

The following table sets forth the ALLL allocated by loan category for the periods indicated (dollars in thousands):

	At December 31,					
	2022		2021			
	Allowance Amount	% of Allowance to Total Allowance	Allowance Amount	% of Allowance to Total Allowance	Allowance Amount	% of Allowance to Total Allowance
Real Estate						
Commercial	\$ 29,496	65.8 %	67.0 %	22,216	64.0 %	66.5 %
Construction	1,983	4.4	3.0	2,105	6.1	4.1
Multi-family	2,823	6.3	9.7	2,156	6.2	9.5
One-to four-family	105	0.2	1.1	140	0.4	1.5
Commercial and industrial	10,274	22.9	18.7	7,708	22.2	17.5
Consumer	195	0.4	0.5	404	1.1	0.9
Total	\$ 44,876	100.0 %	100.0 %	\$ 34,729	100.0 %	100.0 %

Goodwill

The Company performed an impairment assessment and determined that no impairment of goodwill existed as of October 1, 2022. The Company changed its annual goodwill impairment testing date from December 31 to October 1 to better align with the timing of its annual planning process. See "*NOTE 2 – BASIS OF PRESENTATION – Goodwill*" to the Company's consolidated financial statements in this Form 10-K.

Other Assets

Other assets were \$148.3 million at December 31, 2022, an increase of \$91.4 million from December 31, 2021. The increase was due primarily to the adoption of ASU 2016-02 Leases (ASC 842), and the recognition of deferred tax assets related to the unrealized losses on AFS securities. See "*NOTE 3 – SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS*" to the Company's consolidated financial statements in this Form 10-K regarding the adoption of ASC 842.

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Deposits

Total deposits were \$5.3 billion at December 31, 2022, a decrease of \$1.2 billion, or 18.0%, from December 31, 2021. The decrease in deposits was primarily due to a decrease of \$1.0 billion in digital currency business deposits and \$789.7 million in bankruptcy trustee and property manager deposits, partially offset by an aggregate net increase of \$658.3 million in all other deposit verticals. The decrease in digital currency business deposits reflects the Company's decision to fully exit the crypto-asset related vertical in light of recent developments in the crypto-asset industry and material changes in the regulatory environment regarding banks' involvement in crypto-asset related businesses. Non-interest-bearing demand deposits were 45.9% of total deposits at December 31, 2022, compared to 57.0% at December 31, 2021.

The tables below summarize the Company's deposit composition by segment for the periods indicated, and the dollar and percent change from December 31, 2021 to December 31, 2022 (dollars in thousands):

	At December 31,			
	2022	Percentage of total balance	2021	Percentage of total balance
Non-interest-bearing demand deposits	\$ 2,422,151	45.9 %	\$ 3,668,673	57.0 %
Money market	2,792,554	52.9	2,666,983	41.5
Savings accounts	11,144	0.2	20,930	0.3
Time deposits	52,063	1.0	78,986	1.2
Total	\$ 5,277,912	100.0 %	\$ 6,435,572	100.0 %

	2022 vs. 2021 dollar Change	2022 vs. 2021 percentage Change	At December 31,	
			2022	2021
Non-interest-bearing demand deposits	\$ (1,246,522)	(34.0)%		
Money market	125,571	4.7		
Savings accounts	(9,786)	(46.8)		
Time deposits	(26,923)	(34.1)		
Total	\$ (1,157,660)	(18.0)%		

The table below summarizes the Company's average balances and average interest rate paid, by segment, for the periods indicated (dollars in thousands):

	At December 31,			
	2022	Average Rate	2021	Average Rate
Non-interest-bearing demand deposits	\$ 3,223,606	— %	\$ 2,708,547	— %
Money market	2,634,055	1.08	2,375,525	0.56
Savings accounts	18,446	0.21	19,091	0.23
Time deposits	59,645	0.99	83,313	1.02
Total	\$ 5,935,752		\$ 5,186,476	

At December 31, 2022, the aggregate amount of uninsured deposits (deposits in amounts greater than \$250,000, which is the maximum amount for federal deposit insurance) was \$2.2 billion. In addition, as of December 31, 2022, the aggregate

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amount of the Company's uninsured time deposits was \$30.8 million. The following are scheduled maturities of time deposits greater than \$250,000 as of December 31, 2022 (in thousands):

	At December 31, 2022
Three months or less	\$ 4,452
Over three months through six months	10,004
Over six months through one year	9,048
Over one year	7,255
Total	\$ 30,759

Borrowings

Federal Funds Purchased and FHLB Advances

To support a more efficient balance sheet, particularly related to the decrease in deposits related to the exit of the digital currency business, the Company may at times utilize FHLB advances or other funding sources. At December 31, 2022, the Company had \$150.0 million of Federal funds purchased and \$100.0 million of FHLBNY advances. At December 31, 2021, the Company had no Federal funds purchased and no FHLBNY advances. At December 31, 2022, the Company had available borrowing capacity of \$984.4 million at the FHLBNY, and available borrowing capacity of \$137.6 million at the FRBNY discount window.

Trust Preferred Securities Payable

On December 7, 2005, the Company established MetBank Capital Trust I, a Delaware statutory trust ("Trust I"). The Company owns all of the common stock of Trust I in exchange for contributed capital of \$310,000. Trust I issued \$10.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of Trust I's common capital securities, in the Company through the purchase of \$10.3 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "Debentures") issued by the Company. The Debentures, the sole assets of Trust I, mature on December 9, 2035 and bear interest at a floating rate of three-month LIBOR plus 1.85%. The Debentures are callable at any time. At December 31, 2022, the Debentures bore an interest rate of 5.93%.

On July 14, 2006, the Company established MetBank Capital Trust II, a Delaware statutory trust ("Trust II"). The Company owns all of the common stock of Trust II in exchange for contributed capital of \$310,000. Trust II issued \$10.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of Trust II's common capital securities, in the Company through the purchase of \$10.3 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "Debentures II") issued by the Company. The Debentures II, the sole assets of Trust II, mature on October 7, 2036, and bear interest at a floating rate of three-month LIBOR plus 2.00%. The Debentures II are callable at any time. At December 31, 2022, the Debentures II bore an interest rate of 6.08%.

The terms of the trust preferred securities will be impacted by the transition from LIBOR to an alternative U.S. dollar reference interest rate, potentially the SOFR, in 2023. The overnight and 1-, 3-, 6- and 12-month USD LIBOR settings will cease to be published or cease to be representative after June 30, 2023. All other LIBOR settings ceased to be published or to be representative as of December 31, 2021. Management is currently evaluating the impact of the transition on the trust preferred securities payable.

Subordinated Notes Payable

On March 15, 2022, the Company redeemed the entire \$25.0 million principal balance, plus accrued interest, of its outstanding subordinated notes. The subordinated notes were scheduled to mature on March 15, 2027 and had an interest rate of 6.25% per annum.

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Secured Borrowings

The Company has loan participation agreements with counterparties. The Company is generally the servicer for these loans. If the transfer of the participation interest does not qualify for sale treatment under GAAP, the amount of the loan transferred is recorded as a secured borrowing. There were \$7.7 million in secured borrowings as of December 31, 2022 and \$32.5 million as of December 31, 2021.

Accumulated Other Comprehensive Income

Accumulated other comprehensive loss, net of tax, was \$54.3 million, at December 31, 2022 an increase of \$46.8 million from December 31, 2021. The increase was due to the prevailing interest rate environment, which increased the unrealized losses on AFS securities, partially offset by the increases in unrealized gains on cash flow hedges prior to their termination in the third quarter of 2022.

In 2020, the Company entered into an interest rate cap derivative contract as a part of its asset liability management strategy to help manage its interest rate risk position. The interest rate cap was designated as a cash flow hedge of certain deposit liabilities. In the third quarter of 2022, the Company terminated the interest rate cap and monetized the gain on the derivative. The unrecognized value of \$12.7 million at termination will be released from Accumulated other comprehensive income and recorded as a credit to Licensing fees expense through March 2025.

Discussion of the Results of Operations for the year ended December 31, 2022

Net Income

Net income was \$59.4 million for 2022 as compared to \$60.6 million for 2021. The \$1.2 million decrease primarily reflects a \$35.0 million regulatory settlement reserve, a \$11.4 million increase in compensation and benefits, a \$7.7 million increase in professional fees, a \$6.3 million increase in the provision for loan losses, and \$8.5 million increase income tax expense, partially offset by a \$72.2 million increase in net interest income.

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest earned on assets and interest incurred on liabilities. The following table presents an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities. The table presents the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Yields and costs were derived by dividing income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Average balances were derived from daily balances over the periods indicated. Interest income included fees that management considers to be adjustments to yields. Yields on tax-exempt obligations were not computed on a tax-equivalent basis. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred loan origination fees and costs, and purchase discounts and premiums that are amortized or accreted to interest income.

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(dollars in thousands)	Year Ended									
	December 31, 2022			December 31, 2021			December 31, 2020			
	Average Outstanding Balance	Interest	Yield / Rate	Average Outstanding Balance	Interest	Yield / Rate	Average Outstanding Balance	Interest	Yield / Rate	
Assets:										
Interest-earning assets:										
Loans ⁽¹⁾	\$ 4,361,412	\$ 231,851	5.32 %	\$ 3,448,468	\$ 164,528	4.77 %	\$ 2,888,180	\$ 136,497	4.73 %	
Available-for-sale securities	538,425	6,921	1.29	489,922	5,066	1.03	192,472	3,108	1.59	
Held-to-maturity securities	495,812	8,682	1.75	50,110	746	1.49	3,282	59	1.77	
Equity investments - non-trading	2,339	32	1.37	2,312	26	1.13	2,279	41	1.77	
Overnight deposits	1,156,468	12,314	1.05	1,669,754	2,310	0.14	732,130	2,546	0.35	
Other interest-earning assets	16,700	939	5.62	11,897	608	5.11	16,467	846	5.14	
Total interest-earning assets	<u>6,571,156</u>	<u>260,739</u>	<u>3.97</u>	<u>5,672,463</u>	<u>173,284</u>	<u>3.05</u>	<u>3,834,810</u>	<u>143,097</u>	<u>3.73</u>	
Non-interest-earning assets	90,495			89,002			59,584			
Allowance for loan and lease losses	(40,020)			(37,235)			(31,381)			
Total assets	<u>\$ 6,621,631</u>			<u>\$ 5,724,230</u>			<u>\$ 3,863,013</u>			
Liabilities and Stockholders' Equity:										
Interest-bearing liabilities:										
Money market and savings accounts	\$ 2,652,502	28,694	1.08	\$ 2,394,616	13,392	0.56	\$ 1,798,109	12,420	0.69	
Certificates of deposit	59,645	590	0.99	83,313	849	1.02	98,483	1,824	1.85	
Total interest-bearing deposits	<u>2,712,147</u>	<u>29,284</u>	<u>1.08</u>	<u>2,477,929</u>	<u>14,241</u>	<u>0.57</u>	<u>1,896,592</u>	<u>14,244</u>	<u>0.75</u>	
Borrowed funds	45,878	2,297	5.00	45,303	2,042	4.51	129,460	3,932	2.99	
Total interest-bearing liabilities	<u>2,758,025</u>	<u>31,581</u>	<u>1.15</u>	<u>2,523,232</u>	<u>16,283</u>	<u>0.65</u>	<u>2,026,052</u>	<u>18,176</u>	<u>0.90</u>	
Non-interest-bearing liabilities:										
Non-interest-bearing deposits	3,223,606			2,708,547			1,443,094			
Other non-interest-bearing liabilities	61,213			79,239			73,250			
Total liabilities	<u>6,042,844</u>			<u>5,311,018</u>			<u>3,542,396</u>			
Stockholders' equity	578,787			413,212			320,617			
Total liabilities and equity	<u>\$ 6,621,631</u>			<u>\$ 5,724,230</u>			<u>\$ 3,863,013</u>			
Net interest income		<u>\$ 229,158</u>			<u>\$ 157,001</u>			<u>\$ 124,921</u>		
Net interest rate spread ⁽²⁾		2.82 %			2.41 %			2.83 %		
Net interest margin ⁽³⁾		3.49 %			2.77 %			3.26 %		
Total cost of deposits ⁽⁴⁾		0.49 %			0.27 %			0.43 %		
Total cost of funds ⁽⁵⁾		0.53 %			0.31 %			0.52 %		

(1) Amount includes deferred loan fees and non-performing loans.

(2) Determined by subtracting the annualized average cost of total interest-bearing liabilities from the annualized average yield on total interest earning assets.

(3) Determined by dividing net interest income by total average interest-earning assets.

(4) Determined by dividing interest expense on deposits by total average interest-bearing and non-interest bearing deposits.

(5) Determined by dividing interest expense by the sum of total average interest-bearing liabilities and total average non-interest-bearing deposits.

The following table presents the effects of changing rates and volumes on net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). For purposes of

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this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume (in thousands).

	At December 31,					
	2022 over 2021			2021 over 2020		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest-earning assets:						
Loans	\$ 47,033	\$ 20,290	\$ 67,323	\$ 26,720	\$ 1,311	\$ 28,031
Available-for-sale securities	537	1,318	1,855	3,338	(1,380)	1,958
Held-to-maturity securities	7,781	155	7,936	697	(10)	687
Equity investments	—	6	6	1	(16)	(15)
Overnight deposits	(911)	10,915	10,004	1,925	(2,161)	(236)
Other interest-earning assets	265	66	331	(234)	(4)	(238)
Total interest-earning assets	<u>\$ 54,705</u>	<u>\$ 32,750</u>	<u>\$ 87,455</u>	<u>\$ 32,447</u>	<u>\$ (2,260)</u>	<u>\$ 30,187</u>
Interest-bearing liabilities:						
Money market and savings accounts	\$ 1,581	\$ 13,721	\$ 15,302	\$ 3,622	\$ (2,650)	\$ 972
Certificates of deposit	(235)	(24)	(259)	(249)	(726)	(975)
Total deposits	1,346	13,697	15,043	3,373	(3,376)	(3)
Borrowed funds	27	228	255	(3,269)	1,379	(1,890)
Total interest-bearing liabilities	<u>1,373</u>	<u>13,925</u>	<u>15,298</u>	<u>104</u>	<u>(1,997)</u>	<u>(1,893)</u>
Change in net interest income	<u>\$ 53,332</u>	<u>\$ 18,825</u>	<u>\$ 72,157</u>	<u>\$ 32,343</u>	<u>\$ (263)</u>	<u>\$ 32,080</u>

Net interest margin increased 72 basis points to 3.49% for 2022 from 2.77% for 2021 driven largely by the increase in the average balance of loans and the increase in loan and overnight deposit yields partially offset by the decrease in the average balance of overnight deposits and a higher cost of funds.

Total cost of funds for 2022 was 53 basis points compared to 31 basis points for 2021, which reflects the increase in prevailing interest rates and competition for deposits.

Interest Income

Interest income increased \$87.5 million to \$260.7 million for 2022, as compared to \$173.3 million for 2021. The increase from the prior year was primarily due to the \$1.4 billion increase in the average balance of loans and securities, and the 55 basis point and 91 basis point increases in average yield for loans and overnight deposits, respectively. The increase in average yields on loans and overnight deposits reflects the increase in prevailing interest rates on existing floating rate loans and overnight deposits, as well as higher yields on new loan production.

Interest Expense

Interest expense increased \$15.3 million to \$31.6 million for 2022, as compared to \$16.3 million for 2021. The increase from the prior year was primarily due to the 52 basis point increases in average yield for money market and savings accounts, which reflects the increase in prevailing interest rates and competition for deposits.

Provision for Loan Losses

The provision for loan losses increased \$6.3 million to \$10.1 million for 2022, as compared to \$3.8 million for 2021, which reflected loan growth.

Non-Interest Income

Non-interest income increased by \$2.9 million to \$26.6 million for 2022, as compared to \$23.7 million for 2021. The increase was driven primarily by increases in Global Payments Group revenue from higher fintech BaaS transactions.

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Non-Interest Expense

Non-interest expense increased \$61.4 million to \$148.7 million for 2022 as compared to \$87.3 million for 2021. The increase was driven by the \$35.0 million regulatory settlement reserve and increases in compensation and benefits and professional fees. There are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program manager. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Events*.”

Compensation and benefits increased \$11.4 million to \$57.3 million for 2022 as compared to \$45.9 million for 2021. This increase was due primarily to an increase in total compensation in line with revenue growth and the increase in the number of full-time employees to 239 for 2022, as compared to 202 for 2021.

Professional fees increased \$7.7 million to \$14.4 million for 2022 as compared to \$6.8 million for 2021, primarily due to an increase in legal fees related to regulatory matters.

Income Tax Expense

The effective tax rate for 2022 was 38.7% compared to 32.4% for 2021. The effective tax rate increased due to the \$35.0 million regulatory settlement reserve, partially offset by other discrete tax items. The other discrete items related to the change in the geographical mix regarding state apportionment and a higher favorable deduction for the vesting of restricted stock awards in 2022 compared to the prior year.

Off-Balance Sheet Arrangements

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 include commitments to extend credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Exposure to credit loss is represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

The following is a table of off-balance sheet arrangements broken out by fixed and variable rate commitments for the periods indicated therein (in thousands):

	At December 31,					
	2022		2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused commitments	\$ 40,685	\$ 364,908	\$ 39,676	\$ 346,115	\$ 19,024	\$ 266,696
Standby and commercial letters of credit	53,947	—	49,988	—	34,264	—
	<u>\$ 94,632</u>	<u>\$ 364,908</u>	<u>\$ 89,664</u>	<u>\$ 346,115</u>	<u>\$ 53,288</u>	<u>\$ 266,696</u>

The following is a maturity schedule for the Company’s off-balance sheet arrangements at December 31, 2022 (in thousands):

	Total	2023	2024 - 2025	2026 - 2027	Thereafter
Unused commitments	\$ 405,593	\$ 175,490	\$ 199,664	\$ 28,939	\$ 1,500
Standby and commercial letters of credit	53,947	15,316	33,631	5,000	—
	<u>\$ 459,540</u>	<u>\$ 190,806</u>	<u>\$ 233,295</u>	<u>\$ 33,939</u>	<u>\$ 1,500</u>

Liquidity and Capital Resources

Liquidity is the ability to economically meet current and future financial obligations. The Company’s primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities and borrowings. While maturities and scheduled amortization of loans and securities and borrowings are predictable sources of funds, deposit flows,

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mortgage prepayments and security sales are greatly influenced by the general level of interest rates and changes thereto, economic conditions and competition.

The Company regularly reviews the need to adjust investments in liquid assets based upon its assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of its asset/liability program. Excess liquidity is generally invested in interest earning deposits and short- and intermediate-term securities.

The Company's most liquid assets are cash and cash equivalents. The levels of these assets are dependent on the Company's operating, financing, lending, and investing activities during any given period. At December 31, 2022 and 2021, cash and cash equivalents totaled \$257.4 million and \$2.4 billion, respectively. Securities classified as AFS, which provide additional sources of liquidity, totaled \$445.7 million at December 31, 2022 and \$566.6 million at December 31, 2021. There were \$25.0 million and \$0.0 securities pledged to the FRBNY discount window at December 31, 2022 and 2021, respectively.

At December 31, 2022, the Company had \$150.0 million of Federal funds purchased and \$100.0 million of FHLBNY advances. At December 31, 2022, the Company had available borrowing capacity of \$984.4 million at the FHLBNY, and available borrowing capacity of \$137.6 million at the FRBNY discount window.

The Company has no material commitments or demands that are likely to affect its liquidity other than as set forth below. In the event loan demand were to increase faster than expected, or any other unforeseen demand or commitment were to occur, the Company could access its borrowing capacity with the FHLB or obtain additional funds through alternative funding sources, including the brokered deposit market.

Time deposits due within one year as of December 31, 2022 totaled \$37.6 million, or 0.7% of total deposits. Total time deposits were \$52.1 million, or 1.0% of total deposits, at December 31, 2022.

The Company's primary investing activities are the origination, and to a lesser extent, purchase of loans and securities. The Company originated \$1.8 billion and \$1.2 billion of loans during the years ended December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, the Company purchased \$33.8 million and \$173.6 million of AFS and HTM securities, respectively. During the year ended December 31, 2021, the Company purchased \$484.8 million and \$383.6 million of AFS and HTM securities, respectively.

Financing activities consist primarily of activity in deposit accounts. Total deposits decreased by \$1.2 billion for the year ended December 31, 2022 and increased \$2.6 billion during the year ended December 31, 2021. The Company generates deposits from businesses and individuals through client referrals and other relationships and through its retail presence. The Company has established deposit concentration thresholds to avoid the possibility of dependence on any single depositor base for funds.

The Company has loan participation agreements with counterparties. The Company is generally the servicer for these loans. If the transfer of the participation interest does not qualify for sale treatment under GAAP, the amount of the loan transferred is recorded as a secured borrowing. There were \$7.7 million in secured borrowings as of December 31, 2022 and \$32.5 million as of December 31, 2021.

Regulation

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. At December 31, 2022 and December 31, 2021, the Company and the Bank met all applicable regulatory capital requirements to be considered "well capitalized" under regulatory guidelines. The Company and the Bank manage their capital to comply with their internal planning targets and regulatory capital standards administered by federal banking

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agencies. The Company and the Bank review capital levels on a monthly basis. Below is a table of the Company and Bank's capital ratios for the periods indicated:

	At December 31, 2022	At December 31, 2021	Minimum Ratio to be “Well Capitalized”	Minimum Ratio Required for Capital Adequacy Purposes	Minimum Capital Conservation Buffer ⁽¹⁾
The Company					
Tier 1 leverage ratio	10.2 %	8.5 %	N/A	4.0 %	— %
Common equity tier 1	12.1 %	14.1 %	N/A	4.5 %	2.5 %
Tier 1 risk-based capital ratio	12.5 %	14.6 %	N/A	6.0 %	2.5 %
Total risk-based capital ratio	13.4 %	16.1 %	N/A	8.0 %	2.5 %
The Bank					
Tier 1 leverage ratio	10.0 %	8.4 %	5.00 %	4.0 %	— %
Common equity tier 1	12.3 %	14.4 %	6.50 %	4.5 %	2.5 %
Tier 1 risk-based capital ratio	12.3 %	14.4 %	8.00 %	6.0 %	2.5 %
Total risk-based capital ratio	13.1 %	15.2 %	10.00 %	8.0 %	2.5 %

(1) As of December 31, 2022, the capital conservation buffer for the Company and the Bank was 5.4% and 5.1%, respectively, which exceeded the minimum requirement of 2.5% required to be held by banking institutions.

As a result of the Economic Growth Act, banking regulatory agencies adopted a revised definition of “well capitalized” for eligible financial institutions and holding companies with assets of less than \$10 billion (a “Qualifying Community Bank”). The rule establishes a CBLR equal to the tangible equity capital divided by the average total consolidated assets. Regulators have established the CBLR to be set at 8.5% through calendar year 2021 and 9% thereafter. The CARES Act, signed into law in response to the COVID-19 pandemic, temporarily reduced the CBLR to 8%. The Company did not elect to be governed by the CBLR framework and plans to continue to measure capital adequacy using the ratios in the table above. At December 31, 2022, the Company's capital exceeded all applicable requirements.

At both December 31, 2022 and December 31, 2021, total CRE loans were 366.0% and 343.4% of the Bank's risk-based capital, respectively.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

General

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors has oversight of the Company's asset and liability management function, which is managed by the Company's ALCO. The ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews liquidity, capital, deposit mix, loan mix and investment positions.

Interest Rate Risk

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most assets and liabilities, and the fair value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

The Company manages its exposure to interest rates primarily by structuring its balance sheet in the ordinary course of business. The Company generally originates fixed and floating rate loans with maturities of less than five years. The interest rate risk on these loans is offset by the cost of deposits, where many of such deposits generally pay interest based on a floating rate index. Based upon the nature of operations, the Company is not subject to FX or commodity price risk and does not own any trading assets. In the first quarter of 2020, the Company entered into an interest rate cap derivative contract as part of its interest rate risk management strategy. In the third quarter of 2022, the Company terminated the interest rate cap. For further discussion of the interest rate cap, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Discussion of Financial Condition – Accumulated Other Comprehensive Income."

Net Interest Income At-Risk

The Company analyzes its sensitivity to changes in interest rates through a net interest income simulation model, which estimates what net interest income would be for a one-year period based on current interest rates, and then calculates what the net interest income would be for the same period under different interest rate assumptions. For modeling purposes, the Company reclassifies licensing fees on corporate cash management accounts from non-interest expense to interest expense since the fees are indexed to certain market interest rates.

The following table shows the estimated impact on net interest income for the one-year period beginning December 31, 2022 resulting from potential changes in interest rates, expressed in basis points. These estimates require certain assumptions to be made, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on net interest income.

Although the net interest income table below provides an indication of the Company's interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results. The following table indicates the

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sensitivity of projected annualized net interest income to the interest rate movements described above (dollars in thousands):

At December 31, 2022		
Change in Interest Rates (basis points)	Net Interest Income Year 1 Forecast	Year 1 Change from Level
+400	\$ 214,811	(7.39)%
+300	218,743	(5.70)
+200	222,668	(4.01)
+100	227,657	(1.86)
—	231,961	—
-100	235,250	1.42
-200	237,337	2.32
-300	237,128	2.23
-400	240,389	3.63

The table above indicates that at December 31, 2022, in the event of an instantaneous and sustained parallel upward shift of 200 basis points in interest rates, the Company would experience an 4.01% decrease in net interest income. In the event of an instantaneous and sustained parallel downward shift of 100 basis point in interest rates, it would experience a 1.42% increase in net interest income.

Economic Value of Equity Analysis

The Company analyzes the sensitivity of its financial condition to changes in interest rates through an EVE model. This analysis measures the difference between predicted changes in the fair value of assets and predicted changes in the fair value of liabilities assuming various changes in current interest rates. The table below represents an analysis of IRR as measured by the estimated changes in EVE, resulting from instantaneous and sustained parallel shifts in the yield curve (+/- 100, +/- 200, +/- 300 and +/- 400 basis points) at December 31, 2022 (dollars in thousands):

Change in Interest Rates (basis points) ⁽¹⁾	Estimated EVE ⁽²⁾	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Fair Value of Assets ⁽³⁾	
		Dollars	Percent	EVE Ratio ⁽⁴⁾	Increase (Decrease) (basis points)
+400	\$ 546,271	\$ (202,948)	(27.09)%	9.62	(253.25)
+300	597,219	(152,000)	(20.29)	10.31	(184.21)
+200	648,475	(100,744)	(13.45)	10.97	(118.30)
+100	704,426	(44,793)	(5.98)	11.66	(49.16)
—	749,219	—	—	12.16	—
-100	780,626	31,407	4.19	12.43	27.12
-200	794,931	45,712	6.10	12.44	28.12
-300	789,773	40,554	5.41	12.14	(1.20)
-400	750,021	802	0.11	11.37	(78.79)

(1) Assumes an immediate uniform change in interest rates at all maturities.

(2) EVE is the fair value of expected cash flows from assets, less the fair value of the expected cash flows arising from liabilities adjusted for the value of off-balance sheet contracts.

(3) Fair value of assets represents the amount at which an asset could be exchanged between knowledgeable and willing parties in an arms-length transaction.

(4) EVE Ratio represents EVE divided by the fair value of assets.

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The table above indicates that at December 31, 2022, in the event of an immediate upward shift of 200 basis in interest rates, the Company would experience a 13.45% decrease in its EVE. In the event of an immediate downward shift of 100 basis points in interest rates, the Company would experience a 4.19% increase in its EVE.

The preceding simulation analyses do not represent a forecast of actual results and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, which are subject to change, including: the nature and timing of interest rate levels including the yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. Also, as market conditions vary, prepayment/refinancing levels, the varying impact of interest rate changes on caps and floors embedded in adjustable-rate loans, early withdrawal of deposits, changes in product preferences, and other internal/external variables will likely deviate from those assumed.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data included in this report have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 8. Financial Statements and Supplementary Data

For the Company's consolidated financial statements, see index on page 65.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure

a) Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2022. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control over financial reporting is designed under the supervision of management, including our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with GAAP.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide

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reasonable assurances that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with the authorization of management and the Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections on any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

As of December 31, 2022, management assessed the effectiveness of the Company's internal control over financial reporting based upon the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon its assessment, management believes that the Company's internal control over financial reporting as of December 31, 2022 was effective using these criteria.

The Company's internal control over financial reporting as of December 31, 2022 has been audited by Crowe LLP, the independent registered public accounting firm that has also audited the Company's consolidated financial statements as of and for the year ended December 31, 2022. See "*Item 8. Financial Statements and Supplementary Data*."

c) Changes in Internal Control Over Financial Reporting

There were no changes made in the Company's internal control over financial reporting during the fourth quarter of the year ended December 31, 2022 that had materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Company's directors, executive officers and corporate governance is incorporated by reference to the Company's definitive Proxy Statement for its 2023 Annual Meeting of Shareholders (the "Proxy Statement") which will be filed with the SEC within 120 days of December 31, 2022. Specifically, the Company incorporates herein the information regarding its directors and executive officers included in the Proxy Statement under the headings "Proposal 1 — Election of Directors," "— Executive Officers Who Are Not Directors" and "— Delinquent Section 16(a) Reports."

Information regarding the Company's corporate governance is incorporated herein by reference to the information in the Proxy Statement under the heading "Proposal 1 — Election of Directors — Committees of the Board of Directors — Audit Committee." The Company has adopted a written Code of Ethics that applies to all directors, officers, including its Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and Controller, or persons performing similar functions, and employees. The Code of Ethics is published on the Company's website, www.mcbankny.com. The Company will provide to any person, without charge, upon request, a copy of such Code of Ethics. Such request should be made in writing to: Metropolitan Bank Holding Corp. 99 Park Ave., 12th Floor, New York, New York, 10016, attention: Investor Relations.

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Item 11. Executive Compensation

Information regarding executive and director compensation and the Compensation Committee of the Company's Board of Directors is incorporated herein by reference to the information in the Proxy Statement under the heading "Compensation Matters," "Compensation Discussion and Analysis," "Compensation Committee Report," "CEO Pay Ratio" and "Pay Versus Performance."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management are included under the heading "Stock Ownership" in the Proxy Statement and are incorporated herein by reference.

Equity Compensation Plan Information

At December 31, 2022, the Company had the following equity awards outstanding:

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options and Restricted Stock Units	Weighted-Average Exercise Price of Outstanding Options and Restricted Stock Units	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Number of Securities To be Issued Upon Exercise of Outstanding Options and Restricted Stock Units)
Equity Compensation Plans Approved By Security Holders	439,762	47.36	358,572
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	439,762	47.36	358,572

Item 13. Certain Relationships and Related Transactions, and Director Independence

The "Transactions with Related Persons" and "Proposal 1 – Election of Directors – Board Independence" sections of the Company's 2023 Proxy Statement are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The "Proposal 2 — Ratification of Appointment of Independent Registered Public Accounting Firm" section of the Company's 2023 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Financial Statements

See index to Consolidated Financial Statements on page 65.

Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or Notes thereto under “*Part II—Item 8. Financial Statements and Supplementary Data.*”

Exhibits Required by Item 601 of SEC Regulation S-K

- 3.1 [Certificate of Incorporation of Metropolitan Bank Holding Corp, as amended \(incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 4, 2017 \(File No. 333-220805\)\).](#)
- 3.2 [Certificate of Amendment to the Certificate of Incorporation of Metropolitan Bank Holding Corp. \(incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 12, 2021 \(File No. 333-254197\)\).](#)
- 3.3 [Amended and Restated Bylaws of Metropolitan Bank Holding Corp. \(incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2021 \(File No. 001-38282\)\).](#)
- 4.1 [Form of Common Stock Certificate of Metropolitan Bank Holding Corp. \(incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 4, 2017 \(File No. 333-220805\)\).](#)
- 4.2 [Description of Securities of Metropolitan Bank Holding Corp. \(incorporated by reference to Exhibit 4.3 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2020 \(File No. 001-38282\)\).](#)
- 10.1 [Amended and Restated Employment Agreement by and among Metropolitan Bank Holding Corp., Metropolitan Commercial Bank and Mark R. DeFazio \(incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 4, 2017 \(File No. 333-220805\)\).](#)
- 10.2 [Metropolitan Bank Holding Corp. 2009 Equity Incentive Plan \(incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 4, 2017 \(File No. 333-220805\)\).](#)
- 10.3 [First Amendment to 2009 Equity Incentive Plan \(incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2018 \(File No. 001-38282\)\).](#)
- 10.4 [Second Amendment to 2009 Equity Incentive Plan \(incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2018 \(File No. 001-38282\)\).](#)
- 10.5 [Metropolitan Commercial Bank Amended and Restated Executive Annual Incentive Plan \(incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2017 \(File No. 001-38282\)\).](#)
- 10.6 [Form of Performance Restricted Share Unit Award Agreement – 2009 Plan \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2018 \(File No. 001-38282\)\).](#)

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- 10.7 [Amendment One to Restricted Share Agreements – 2009 Plan \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2018 \(File No. 001-38282\)\).](#)
- 10.8 [Form of Restricted Share Agreement – 2009 Plan \(incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2018 \(File No. 001-38282\)\).](#)
- 10.9 [Form of Stock Option Agreement – 2009 Plan \(incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2018 \(File No. 001-38282\)\).](#)
- 10.10 [Employment Agreement by and between Metropolitan Commercial Bank and Scott Lublin \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2018 \(File No. 001-38282\)\).](#)
- 10.11 [Metropolitan Bank Holding Corp. 2019 Equity Incentive Plan Incorporated by reference to Appendix A to the proxy statement for the Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 17, 2019 \(File No. 001-38282\)\).](#)
- 10.12 [Change in Control Agreement between Metropolitan Bank Holding Corp., Metropolitan Commercial Bank and Nick Rosenberg \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2019 \(File No. 001-38282\)\).](#)
- 10.13 [Form of Restricted Stock Unit Award Agreement – 2019 Plan \(incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 26, 2019 \(File No. 333-233465\)\).](#)
- 10.14 [Form of Performance-Based Restricted Stock Award Agreement – 2019 Plan \(incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 26, 2019 \(File No. 333-233465\)\).](#)
- 10.15 [Form of Time-Based Restricted Stock Award Agreement – 2019 Plan \(incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 26, 2019 \(File No. 333-233465\)\).](#)
- 10.16 [Form of Incentive Stock Option Agreement – 2019 Plan \(incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 26, 2019 \(File No. 333-233465\)\).](#)
- 10.17 [Form of Non-Qualified Stock Option Agreement – 2019 Plan \(incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on August 26, 2019 \(File No. 333-233465\)\).](#)
- 10.18 [Metropolitan Bank Holding Corp. 2022 Equity Incentive Plan \(incorporated by reference to Appendix A to the proxy statement for the Annual Meeting of Stockholders filed with the Securities and Exchange Commission on April 20, 2022 \(File No. 001-38282\)\).](#)
- 10.19 [Form of Director Award Agreement](#)
- 10.20 [Form of Executive Award Agreement with Time-Based Vesting](#)
- 10.21 [Form of Executive Award Agreement with Performance-Based Vesting](#)
- 10.22 [Change in Control Agreement between Metropolitan Bank Holding Corp., Metropolitan Commercial Bank and Gregory Sigrist \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2020 \(File No. 001-38282\)\).](#)
- 10.23 [Change in Control Agreement between Metropolitan Bank Holding Corp., Metropolitan Commercial Bank and Laura Capra](#)
- 21.1 [Subsidiaries of Registrant Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 4, 2017 \(File No. 333-220805\).](#)
- 23.1 [Consent of Independent Registered Public Accounting Firm](#)
- 31.1 [Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

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- 31.2 [Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 Inline Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of December 31, 2022 and 2021 (ii) the Consolidated Statements of Operation for the years ended December 31, 2022, 2021, and 2020, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2022, 2021, and 2020 (iv) the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022, 2021, and 2020, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021, and 2020, and (vi) the notes to the Consolidated Financial Statements
- 104 The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2022, has been formatted in Inline XBRL

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Metropolitan Bank Holding Corp.

Date: February 28, 2023

By: /s/ Mark R. DeFazio
Mark R. DeFazio
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Mark R. DeFazio</u> Mark R. DeFazio	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2023
<u>/s/ Gregory A. Sigrist</u> Gregory A. Sigrist	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2023
<u>/s/ William Reinhardt</u> William Reinhardt	Chairman of the Board	February 28, 2023
<u>/s/ Dale C. Fredston</u> Dale C. Fredston	Director	February 28, 2023
<u>/s/ David J. Gold</u> David J. Gold	Director	February 28, 2023
<u>/s/ Harvey M. Gutman</u> Harvey M. Gutman	Director	February 28, 2023
<u>/s/ Terence J. Mitchell</u> Terence J. Mitchell	Director	February 28, 2023
<u>/s/ Robert C. Patent</u> Robert C. Patent	Director	February 28, 2023
<u>/s/ Maria F. Ramirez</u> Maria F. Ramirez	Director	February 28, 2023
<u>/s/ Anthony J. Fabiano</u> Anthony J. Fabiano	Director	February 28, 2023
<u>/s/ George J. Wolf, Jr.</u> George J. Wolf, Jr.	Director	February 28, 2023
<u>/s/ Chaya Pamula</u> Chaya Pamula	Director	February 28, 2023
<u>/s/ Katrina Robinson</u> Katrina Robinson	Director	February 28, 2023

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
Metropolitan Bank Holding Corp. and Subsidiaries
New York, New York

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Metropolitan Bank Holding Corp. and Subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as

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evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative and Economic Factors

As described in Note 2 to the consolidated financial statements, management estimates the allowance for loan losses for non-impaired loans using historical loss experience adjusted for qualitative and economic factors based on the risks present for each portfolio segment. These qualitative and economic factors include economic and business conditions, the nature and volume of the portfolio, lending terms and volumes and the severity of past due loans.

We consider auditing management's application of the qualitative and economic factors in the allowance for loan losses to be a critical audit matter due to the extent of audit effort and degree of auditor subjectivity and judgment required to evaluate the qualitative and economic factors given the volume and nature of factors and the significant management judgment required.

To address this matter, we tested the operating effectiveness of the Company's controls related to the qualitative and economic factors, including the following:

- Management's review of the mathematical accuracy of the allowance for loan losses including the completeness and accuracy of the internal data and the relevance and reliability of external data used as the basis for qualitative and economic factors;
- Management's monitoring of the completeness, accuracy and severity of past due loans;

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- Management's evaluation and approval of the judgments related to the qualitative and economic factors and the resulting allocation for each portfolio segment to the allowance for loan losses; and
- Management's evaluation and approval of the overall allowance for loan losses.

Our substantive procedures related to the qualitative and economic factors included the following:

- Testing the mathematical accuracy of the allowance for loan losses, including the completeness and accuracy of the internal data and the relevance and reliability of external data used as the basis for the qualitative and economic factors;
- Testing the completeness, accuracy, and severity of past due loans;
- Evaluating the reasonableness of management's application of qualitative and economic factors and the resulting allocation for each portfolio segment to the allowance for loan losses; and
- Testing the reasonableness of the overall allowance for loan losses.

/s/ Crowe LLP

We have served as the Company's auditor since 2008.

New York, New York
February 28, 2023

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METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except share data)

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	\$ 26,780	\$ 28,864
Overnight deposits	230,638	2,330,486
Total cash and cash equivalents	<u>257,418</u>	<u>2,359,350</u>
Investment securities available for sale, at fair value	445,747	566,624
Investment securities held to maturity (estimated fair value of \$437.3 million and \$380.1 million at December 31, 2022 and 2021, respectively)	510,425	382,099
Equity investment securities, at fair value	2,048	2,273
Total securities	<u>958,220</u>	<u>950,996</u>
Other investments	22,110	11,998
Loans, net of deferred fees and costs	4,840,523	3,731,929
Allowance for loan losses	(44,876)	(34,729)
Net loans	<u>4,795,647</u>	<u>3,697,200</u>
Receivable from global payments business, net	85,605	39,864
Other assets	148,337	56,950
Total assets	<u>\$ 6,267,337</u>	<u>\$ 7,116,358</u>
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing demand deposits	\$ 2,422,151	\$ 3,668,673
Interest-bearing deposits	<u>2,855,761</u>	<u>2,766,899</u>
Total deposits	<u>5,277,912</u>	<u>6,435,572</u>
Federal funds purchased	150,000	—
Federal Home Loan Bank of New York advances	100,000	—
Trust preferred securities	20,620	20,620
Subordinated debt, net of issuance cost	—	24,712
Secured borrowings	7,725	32,461
Prepaid third-party debit cardholder balances	10,579	8,847
Other liabilities	<u>124,604</u>	<u>37,157</u>
Total liabilities	<u>5,691,440</u>	<u>6,559,369</u>
Common stock, \$0.01 par value, 25,000,000 shares authorized, 10,949,965 and 10,920,569 shares issued and outstanding at December 31, 2022 and 2021, respectively	109	109
Additional paid in capital	389,276	382,999
Retained earnings	240,810	181,385
Accumulated other comprehensive income (loss), net of tax	(54,298)	(7,504)
Total stockholders' equity	<u>575,897</u>	<u>556,989</u>
Total liabilities and stockholders' equity	<u>\$ 6,267,337</u>	<u>\$ 7,116,358</u>

See accompanying notes to consolidated financial statements

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2022, 2021 and 2020
(in thousands, except per share data)

	2022	2021	2020
Interest and dividend income			
Loans, including fees	\$ 231,851	\$ 164,528	\$ 136,497
Securities			
Taxable	15,432	5,649	3,208
Tax-exempt	203	189	—
Money market funds	—	—	34
Overnight deposits	12,314	2,310	2,546
Other interest and dividends	939	608	812
Total interest income	<u>260,739</u>	<u>173,284</u>	<u>143,097</u>
Interest expense			
Deposits	29,284	14,241	14,244
Borrowed funds	893	—	1,742
Trust preferred securities	799	424	572
Subordinated debt	605	1,618	1,618
Total interest expense	<u>31,581</u>	<u>16,283</u>	<u>18,176</u>
Net interest income	229,158	157,001	124,921
Provision for loan losses	10,116	3,816	9,488
Net interest income after provision for loan losses	<u>219,042</u>	<u>153,185</u>	<u>115,433</u>
Non-interest income			
Service charges on deposit accounts	5,747	4,755	3,728
Global Payments Group revenue	19,341	16,445	8,464
Other income	1,505	2,497	4,811
Total non-interest income	<u>26,593</u>	<u>23,697</u>	<u>17,003</u>
Non-interest expense			
Compensation and benefits	57,290	45,908	39,797
Bank premises and equipment	8,855	8,055	8,340
Professional fees	14,423	6,750	4,122
Technology costs	4,713	5,201	3,387
Licensing fees	10,477	8,606	9,653
FDIC assessments	4,625	3,852	2,041
Regulatory settlement reserve	35,000	—	—
Other expenses	13,354	8,940	7,178
Total non-interest expense	<u>148,737</u>	<u>87,312</u>	<u>74,518</u>
Net income before income tax expense	96,898	89,570	57,918
Income tax expense	37,473	29,015	18,452
Net income	<u>\$ 59,425</u>	<u>\$ 60,555</u>	<u>\$ 39,466</u>
Earnings per common share			
Basic earnings	\$ 5.42	\$ 6.64	\$ 4.76
Diluted earnings	\$ 5.29	\$ 6.45	\$ 4.66

See accompanying notes to consolidated financial statements

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022, 2021 and 2020
(in thousands)

	2022	2021	2020
Net Income	\$ 59,425	\$ 60,555	\$ 39,466
Other comprehensive income:			
Securities available for sale:			
Unrealized gain (loss) arising during the period	(76,934)	(14,722)	4,877
Reclassification adjustment for gains included in net income	—	(609)	(3,286)
Tax effect	23,353	4,795	(514)
Net of tax	<u>(53,581)</u>	<u>(10,536)</u>	<u>1,077</u>
Cash flow hedges:			
Unrealized gain (loss) arising during the period	11,704	2,957	(1,925)
Reclassification adjustment for gains included in net income	(1,949)	—	—
Tax effect	(2,968)	(898)	614
Net of tax	<u>6,787</u>	<u>2,059</u>	<u>(1,311)</u>
Total other comprehensive income (loss)	<u>(46,794)</u>	<u>(8,477)</u>	<u>(234)</u>
Comprehensive Income (Loss)	<u>\$ 12,631</u>	<u>\$ 52,078</u>	<u>\$ 39,232</u>

See accompanying notes to consolidated financial statements

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2022, 2021 and 2020
(in thousands, except share data)

	Preferred Stock, Class B		Common Stock		Additional Paid-in Capital		Retained Earnings	AOCI (Loss), Net	Total
	Shares	Amount	Shares	Amount					
Balance at January 1, 2022	—	\$ —	10,920,569	\$ 109	\$ 382,999	\$ 181,385	\$ (7,504)	\$ 556,989	
Net issuance of common stock under stock compensation plans	—	—	48,479	—	—	—	—	—	—
Employee and non-employee stock-based compensation	—	—	—	—	7,836	—	—	—	7,836
Redemption of common stock for exercise of stock options and tax withholdings for restricted stock vesting	—	—	(19,083)	—	(1,559)	—	—	(1,559)	
Net income	—	—	—	—	—	59,425	—	59,425	
Other comprehensive income (loss)	—	—	—	—	—	—	(46,794)	(46,794)	
Balance at December 31, 2022	<u>—</u>	<u>\$ —</u>	<u>10,949,965</u>	<u>\$ 109</u>	<u>\$ 389,276</u>	<u>\$ 240,810</u>	<u>\$ (54,298)</u>	<u>\$ 575,897</u>	
Balance at January 1, 2021	272,636	\$ 3	8,295,272	\$ 82	\$ 218,899	\$ 120,830	\$ 973	\$ 340,787	
Issuance of common stock	—	—	2,300,000	23	162,664	—	—	—	162,687
Preferred Stock converted to Common Stock	(272,636)	(3)	272,636	3	—	—	—	—	—
Net issuance of common stock under stock compensation plans	—	—	101,291	1	—	—	—	—	1
Employee and non-employee stock-based compensation	—	—	—	—	4,821	—	—	—	4,821
Redemption of common stock for exercise of stock options and tax withholdings for restricted stock vesting	—	—	(48,630)	—	(3,385)	—	—	(3,385)	
Net income	—	—	—	—	—	60,555	—	60,555	
Other comprehensive income (loss)	—	—	—	—	—	—	(8,477)	(8,477)	
Balance at December 31, 2021	<u>—</u>	<u>\$ —</u>	<u>10,920,569</u>	<u>\$ 109</u>	<u>\$ 382,999</u>	<u>\$ 181,385</u>	<u>\$ (7,504)</u>	<u>\$ 556,989</u>	
Balance at January 1, 2020	272,636	\$ 3	8,312,918	\$ 82	\$ 216,468	\$ 81,364	\$ 1,207	\$ 299,124	
Net issuance of common stock under stock compensation plans	—	—	(3,298)	—	—	—	—	—	—
Employee and non-employee stock-based compensation	—	—	—	—	3,312	—	—	—	3,312
Redemption of common stock for exercise of stock options and tax withholdings for restricted stock vesting	—	—	(14,348)	—	(881)	—	—	(881)	
Net income	—	—	—	—	—	39,466	—	39,466	
Other comprehensive income (loss)	—	—	—	—	—	—	(234)	(234)	
Balance at December 31, 2020	<u>272,636</u>	<u>\$ 3</u>	<u>8,295,272</u>	<u>\$ 82</u>	<u>\$ 218,899</u>	<u>\$ 120,830</u>	<u>\$ 973</u>	<u>\$ 340,787</u>	

See accompanying notes to consolidated financial statements

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METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022, 2021 and 2020
(in thousands)

	2022	2021	2020
Cash flows from operating activities			
Net income	\$ 59,425	\$ 60,555	\$ 39,466
Adjustments to reconcile net income to net cash:			
Net depreciation amortization and accretion	4,338	5,063	4,603
Provision for loan losses	10,116	3,816	9,488
Stock-based compensation	7,836	4,821	3,312
Net change in deferred loan fees	5,374	2,332	296
Deferred income tax (benefit) expense	(4,000)	(120)	290
(Gain) loss on sale of securities	—	(609)	(3,286)
(Gain) loss on sale of loans	—	190	
Dividends earned on CRA fund	(33)	(22)	(41)
Unrealized (gain) loss on equity securities	258	62	(48)
Net change in:			
Receivable from global payments, net	(45,741)	(12,605)	(15,678)
Third-party debit cardholder balances	1,732	(6,983)	16,227
Other assets	3,407	6,167	(5,121)
Other liabilities	43,179	(25,200)	37,572
Net cash provided by (used in) operating activities	<u>85,891</u>	<u>37,277</u>	<u>87,270</u>
Cash flows from investing activities			
Loan originations, purchases and payments, net	(1,113,963)	(618,323)	(476,419)
Proceeds from loans sold	—	16,622	11,476
Redemptions of other investments	20,030	7	10,980
Purchases of other investments	(30,142)	(407)	(1,140)
Purchase of securities available-for-sale	(33,776)	(484,793)	(234,366)
Purchase of securities held-for-investment	(173,625)	(383,619)	—
Proceeds from sales and calls of securities available-for-sale	—	43,241	141,422
Proceeds from paydowns of securities available-for-sale	76,728	124,118	64,973
Proceeds from paydowns of securities held-to-maturity	44,643	4,152	932
Purchase of derivative contract	—	—	(2,980)
Purchase of premises and equipment, net	(19,245)	(3,995)	(3,913)
Net cash provided by (used in) investing activities	<u>(1,229,350)</u>	<u>(1,302,997)</u>	<u>(489,035)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock, net	—	162,687	—
Proceeds from issuance of Federal funds purchased	150,000	—	—
Proceeds from FHLB advances	975,100	150	—
Repayments of FHLB advances	(875,100)	(150)	(144,000)
Proceeds from exercise of stock options	194	—	—
Redemption of common stock for tax withholdings for restricted stock vesting	(1,559)	(3,385)	(881)
Redemption of subordinated debt	(24,712)	—	—
Proceeds from (repayments of) secured borrowings, net	(24,736)	(4,503)	(6,008)
Net increase (decrease) in deposits	(1,157,660)	2,605,966	1,027,739
Net cash provided by (used in) financing activities	<u>(958,473)</u>	<u>2,760,765</u>	<u>876,850</u>
Increase (decrease) in cash and cash equivalents	(2,101,932)	1,495,045	475,085
Cash and cash equivalents at the beginning of the period	2,359,350	864,305	389,220
Cash and cash equivalents at the end of the period	<u>\$ 257,418</u>	<u>\$ 2,359,350</u>	<u>\$ 864,305</u>
Supplemental information			
Cash paid for:			
Interest	\$ 31,599	\$ 16,249	\$ 18,693
Income Taxes	\$ 35,304	\$ 24,165	\$ 19,085
Non-cash item:			
Transfer of loans from held-for-investment to held-for-sale	\$ —	\$ 17,492	\$ 1,716

See accompanying notes to consolidated financial statements

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION

Metropolitan Bank Holding Corp., a New York corporation (the “Company”), is a bank holding company whose principal activity is the ownership and management of Metropolitan Commercial Bank (the “Bank”), its wholly-owned subsidiary. The Company’s primary market is the New York metropolitan area. The Company provides a broad range of business, commercial and retail banking products and services to small businesses, middle-market enterprises, public entities and affluent individuals. See the *“Glossary of Common Terms and Acronyms”* for the definition of certain terms and acronyms used throughout this Form 10-K.

The Company’s primary lending products are CRE loans, C&I loans, and multi-family loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flows from operations of businesses.

The Company’s primary deposit products are checking, savings, and term deposit accounts, and its deposit accounts are insured by the FDIC up to the maximum amounts allowed by law. In addition to traditional commercial banking products, the Company offers corporate cash management and retail banking services and, through its Global Payments Group (“global payments business”), provides BaaS to its fintech partners, which includes serving as an issuing bank for third-party managed debit card programs nationwide and providing other services and financial infrastructure, including cash settlement and custodian deposit services.

The Company and the Bank are subject to the regulations of certain state and federal agencies and, accordingly, are periodically examined by those regulatory authorities. The Company’s business is affected by state and federal legislation and regulations.

NOTE 2 — BASIS OF PRESENTATION

The accounting and reporting policies of the Company conform with GAAP and predominant practices within the U.S. banking industry. The Consolidated Financial Statements (the “financial statements”) include the accounts of the Company and the Bank. All intercompany balances and transactions have been eliminated. The financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. A summary of the Company’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Use of Estimates

In preparing the financial statements in conformity with GAAP, management has made estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimated. Information available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, and changes in the financial condition of borrowers.

Cash Flows

Cash and cash equivalents are defined as cash on hand and amounts due from banks and money market funds. Net cash flows are reported for customer loan and deposit transactions, and other investments.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities

Debt securities are classified as HTM and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as AFS when they might be sold before maturity. Securities classified as AFS are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized using the level yield method without anticipating prepayments, except for MBS where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. Gains and losses on sales of securities are recognized in the consolidated statements of operations upon sale.

Management evaluates AFS and HTM securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the statement of operations and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Receivable from Global Payments Business, Net

Receivables from the global payments business are predominantly related to prepaid credit card programs.

Revenue Recognition

Any revenues from contracts with customers, which are not exempt from the accounting requirements under ASC 606, Revenue from Contracts with Customers, are accounted for using the five-step method prescribed by the ASC. These revenue items are debit card income, service charges on deposit accounts and other service charges. In accordance with the ASC, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for these services. The Company applies the following five steps to properly recognize revenue: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The majority of the Company's revenue is derived from interest income on loans, which is not subject to the ASC.

Licensing Fees

Licensing fees on certain deposit accounts held by bankruptcy trustees are expensed as incurred. These accounts require the use of a software interface provided by a third party. Bankruptcy accounts subject to the licensing fees amounted to \$425.3 million and \$934.3 million at December 31, 2022 and 2021, respectively.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Transfers of financial assets that do not meet the criteria to be accounted for as sales are recorded as secured borrowings.

Loans and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances, adjusted for any charge-offs, and any deferred fees or costs on originated loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The ALLL is maintained at an amount management deems adequate to cover probable incurred credit losses. In determining the level to be maintained, management evaluates many factors, including current economic trends, industry experience, historical loss experience, loan concentrations, the borrower's ability to repay and repayment performance and estimated collateral values. Loan losses are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

A loan is considered to be impaired when it is probable that the Company will be unable to collect all principal and interest amounts 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 record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, impairment is measured at the present value of estimated future cash flows using the loan's effective interest rate or at the fair value of collateral if repayment is expected solely from the collateral. All commercial and CRE loans are individually evaluated for credit risk at least annually, and all classified loans are individually evaluated for impairment quarterly. Large groups of smaller balance homogenous loans such as residential real estate loans are collectively evaluated for impairment, and accordingly, are not separately evaluated for impairment disclosures unless an individual loan is classified.

The allowance for non-impaired loans is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over a rolling two-year period. This actual loss experience is supplemented with other qualitative and economic factors based on the risks present for each portfolio segment. These qualitative and economic factors include economic and business conditions, the nature and volume of the portfolio, and lending terms and volume and severity of past due loans.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary, based on changes in economic conditions or any other factors used in management's determination. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

When a loan is modified and concessions have been made to the original contractual terms, such as reductions in interest rate or deferral of interest or principal payments, due to the borrower's financial condition, the modification is known as a TDR. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

On March 22, 2020, the banking regulators and the FASB issued guidance to financial institutions who were working with borrowers affected by COVID-19 (the "COVID-19 Guidance"). The COVID-19 Guidance indicated that regulatory agencies will not criticize institutions for working with borrowers and will not direct banks to automatically categorize all COVID-19 related loan modifications as TDRs. In addition, the COVID-19 Guidance noted that modification or deferral programs mandated by the federal or a state government related to COVID-19 would not be in the scope of Accounting Standards Codification Subtopic 310-40 – Receivables – Troubled Debt Restructurings by Creditors ("ASC 310-40"), such as state programs that require all institutions within that state to suspend mortgage payments for a specified period.

On March 27, 2020, the CARES Act was signed into law. Section 4013 of the CARES Act, "Temporary Relief from Troubled Debt Restructurings," allowed banks to temporarily suspend certain requirements under GAAP related to TDRs for a limited period that ended on January 1, 2022. During this period, a bank may have elected to account for modifications on certain loans under Section 4013 of the CARES Act or, if a loan modification is not eligible under Section 4013, a bank may use the criteria in the COVID-19 Guidance to determine when a loan modification is not a TDR in accordance with ASC 310-40.

Interest income on loans is accrued and credited to operations based upon the principal amounts outstanding. Loans are normally placed on non-accrual when a loan is determined to be impaired or when principal or interest is delinquent for 90 days or more. Delinquent status is based on the contractual terms of the loan. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on such loans are applied as a reduction of the loan principal balance when the collectability of principal, wholly or partially, is in doubt. Interest payments received may be deferred on non-accrual loans in which the principal balance is deemed to be collectible. Interest income is recognized when all the principal and interest amounts contractually due are brought current and the loans are returned to accrual status.

The following portfolio segments have been identified: CRE loans, Construction loans, Multi-Family loans, One-to Four - Family loans, C&I, and Consumer loans.

The risk characteristics of each of the identified portfolio segments are as follows:

Commercial Real Estate — CRE loans are secured by nonresidential real estate and generally have larger balances and involve a greater degree of risk than residential real estate loans. Repayment of CRE loans depends on the cash flow of the borrower and the net operating income of the property, the borrower's profitability, and the value of the underlying property. Of primary concern in CRE lending is the borrower's creditworthiness and the cash flows from the 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. CRE is also subject to adverse market conditions that cause a decrease in market value or lease rates, obsolescence in location or function and market conditions associated with oversupply of units in a specific region.

Construction — Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, additional funds may be required to be advanced in excess of the amount originally committed to permit completion of the building.

If the estimate of value proves to be inaccurate, the value of the building may be insufficient to assure full repayment if liquidation is required. If foreclosure is required on a building before or at completion due to a default, there can be no assurance that all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs will be recovered.

Multi-family— Multi-family real estate loans are secured by real estate of five or more units and generally have larger balances and involve a greater degree of risk than residential real estate loans. Repayment of multi-family real estate loans depends on the cash flow analysis of the property, occupancy rates, and unemployment rates, combined with the net operating income of the property, the borrower's profitability, and the value of the underlying property. Payments on these loans depend on successful operation and management of the properties, and repayment of such loans may be subject to adverse conditions in the real estate market and/or the economy.

One-to Four-Family— One-to four-family loans are generally made on the basis of the borrower's ability to make repayment from his or her employment income or other income, and which are secured by real property whose value tends to be more easily ascertainable. Repayment of one-to four-family loans is subject to adverse employment conditions in the local economy leading to increased default rates and decreased market values, including from oversupply in a geographic area. In general, these loans depend on the borrower's continuing financial stability and, therefore, are likely to be adversely affected by various factors, including job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial & Industrial— C&I loans are generally of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Furthermore, any collateral securing such loans may depreciate over time, may be difficult to appraise, and may fluctuate in value.

Consumer— Historically, the Company purchased loans made to licensed medical professionals on an unsecured basis. However, this practice was discontinued in 2019. Consumer loans are comprised of these loans and student loans, which were also purchased. As a result, repayment of such loans are subject, to a greater extent than loans secured by collateral, to the financial condition of the borrower.

Goodwill

Goodwill and certain other intangibles generally arise from business combinations accounted for under the purchase method of accounting. Goodwill and other intangibles deemed to have indefinite lives generated from business combinations are not subject to amortization and are instead tested for impairment not less than annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company changed its annual goodwill impairment testing date from December 31 to October 1 to better align with the timing of our annual planning process. Accordingly, management determined that the change in accounting principle is preferable under the circumstance. This change has been applied starting with the October 1, 2022 impairment test. This change was not material to our consolidated financial statements as it did not delay, accelerate, or avoid any potential goodwill impairment charges.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The goodwill of \$9.7 million is associated with a purchase of the prepaid third-party debit card business. Based on the Company's annual impairment assessments no impairment of goodwill existed as of October 1, 2022 or December 31, 2021.

Stock-Based Compensation

Compensation cost is recognized for stock options, restricted stock awards and restricted stock units, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of options. The market price of the Company's common stock at the date of grant is used for restricted stock awards and restricted stock units. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with time-based vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

The Company also awards PRSUs to employees. The PRSUs are classified as either equity or a liability, depending on certain criteria provided in ASC 718, Stock Based Compensation. This classification affects whether the measurement of fair value is fixed (i.e., measured only once) on the grant date or whether fair value will be remeasured each reporting period until settled. On the grant date, the estimate of equity-classified awards' fair value would be fixed, the cumulative amount of previously recognized compensation cost would be adjusted, and the Company would no longer have to remeasure the award. If the award is liability-classified, the awards would continue to be marked to fair value each reporting period until settlement. The Company recognizes compensation cost for awards with performance conditions if and when it concludes that it is probable that the performance conditions will be achieved. The Company assesses the probability of vesting (i.e., that the performance conditions will be met) at each reporting period and, if required, adjusts compensation cost based on its probability assessment.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of temporary cash investments including due from banks, interest-bearing deposits with banks and real estate loans receivable. A significant portion of real estate loans are collateralized by property in the New York Metropolitan area. The ultimate collectability of these loans may be susceptible to changes in the real estate market in this area.

Leases

As of December 31, 2022, the Company follows ASC 842, Leases. The Company's real estate leases are recognized as operating leases. The related ROU lease assets and liabilities are recognized to reflect our right to use the underlying assets and contractual obligations associated with future rent payments. ROU assets are included in other assets and lease liabilities are included in other liabilities on the consolidated statements of financial condition. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. On a periodic basis, ROU assets are assessed for impairment and an impairment loss would be recognized if the carrying amount of the ROU asset is not recoverable. See "NOTE 3 — SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS," for a discussion on the adoption of this ASC.

Prior to 2022, operating leases were not recognized on the Company's consolidated statements of financial condition. Operating lease expense for lease payments were recognized on a straight-line basis over the lease term in the Company's consolidated statements of operations.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
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Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the estimated useful lives of the assets by the straight-line method with useful lives ranging from three to thirty years. Leasehold improvements are amortized over the shorter of the terms of the respective leases or the estimated lives of the improvements.

Other Investments

Other investments include FRB and FHLB stock. The Company is a member of the FRB and the FHLB system. FHLB members are required to own membership stock and purchase activity-based stock that is based on the level of outstanding borrowings. FRB and FHLB stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company held FRB and FHLB stock of \$11.4 million and \$9.2 million, respectively, as of December 31, 2022. As of December 31, 2021, the Company held FRB and FHLB stock of \$7.4 million and \$3.1 million, respectively. Other investments also include a \$1.0 million investment in The Disability Opportunity Fund, which is an equity equivalent investment in a community development financial institution.

Derivatives

During 2020, the Company entered into an interest rate cap derivative that, based on the Company's intentions and belief as to the likely effectiveness as a hedge, was designated as a cash flow hedge. A cash flow hedge is a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in accumulated other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of the derivative that are not highly effective in hedging the changes in expected cash flows of the hedged item are recognized immediately in current earnings. The amounts are reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk management objective and the strategy for undertaking hedged transactions at the inception of the hedging relationship. The documentation includes linking the cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions or group of forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, or treatment of the derivative as a hedge is no longer appropriate or intended.

When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were in accumulated other comprehensive income are amortized into earnings over the same periods in which the hedged transactions will affect earnings. If the forecasted transaction is deemed probable to not occur, the derivative gain or loss reported in accumulated other comprehensive income is reclassified into current earnings.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses and reclassification to earnings related to AFS securities and unrealized gain (loss) related to the cash flow hedges.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restrictions on Cash

Cash on hand or on deposit with the FRB to meet regulatory reserve and clearing requirements was \$226.7 million and \$2.3 billion as of December 31, 2022 and 2021, respectively. Also included in cash was \$13.3 million and \$10.8 million of cash held in escrow and collateral accounts for third-party debit card program managers at December 31, 2022 and 2021, respectively. Additionally, there was \$693,000 and \$683,000 of cash pledged for a related collateral account at December 31, 2022 and 2021, respectively.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the applicable period, including outstanding participating securities. Diluted earnings per common share is computed using the weighted average number shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. Unvested share-based awards and preferred shares that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. A valuation allowance is recorded, as necessary, to reduce deferred tax assets to an estimated amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of liquid markets for certain items. Changes in assumptions or in market conditions could significantly affect the estimates.

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Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Reclassifications

Some items in the prior year financial statements may have been reclassified to conform to the current presentation. Reclassification had no effect on prior year net income or stockholders' equity.

Operating segment

While department heads monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

NOTE 3 — SUMMARY OF RECENT ACCOUNTING PRONOUNCEMENTS

Pursuant to the JOBS Act, an EGC is provided the option to adopt new or revised accounting standards that may be issued by the FASB or the SEC either (i) within the same periods as those otherwise applicable to non-EGCs or (ii) within the same time periods as private companies. The Company's EGC status ended on December 31, 2022, which was the last day of the fiscal year of the Company following the fifth anniversary of the date of the first sale of common equity securities of the Company pursuant to an effective registration statement under the Securities Act of 1933.

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842), which requires lessees to recognize a lease liability for the obligation to make lease payments and a corresponding ROU asset representing the right to use the underlying asset for the lease term on the balance sheet. The Company adopted this guidance on December 31, 2022 with an effective date of January 1, 2022. This guidance was adopted using a modified retrospective approach. The Company recorded lease assets and liabilities of \$44.3 million and \$48.4 million, respectively. In accordance with the guidance, \$4.1 million of deferred rent was reclassified from liabilities and netted with the ROU asset. There was no cumulative effect adjustment recorded to retained earnings upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (ASC 326), which requires the measurement of all expected credit losses for financial assets held at amortized cost to be based on historical experience, current condition, and reasonable and supportable forecasts. ASU 2016-2013 requires that financial institutions and other organizations will use forward-looking information to better inform their credit loss estimates. This guidance also amends the accounting for credit losses on AFS debt securities and purchased financial assets with credit deterioration. The Company adopted this guidance effective January 1, 2023 using a modified retrospective approach and will record a pre-tax cumulative effect adjustment that will increase the ACL for loans and unfunded commitments by approximately 7% to 11% with a corresponding decrease in retained earnings.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (ASC 326): Troubled Debt Restructurings and Vintage Disclosures. ASU 2022-02 eliminates the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted this guidance effective January 1, 2023, which did not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (ASC 350): Simplifying the Test for Goodwill Impairment, which eliminates the second step in the goodwill impairment test, which requires an entity to

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determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The Company adopted the standard beginning January 1, 2021, which did not have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (ASC 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU were effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications at the instrument level as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. In January 2021 the FASB issued ASU 2021-01. The amendments in this ASU clarify that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in ASC 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform.

In December 2022, the FASB issued ASU 2020-04, Reference Rate Reform (ASC 848): Deferral of Sunset Date of Topic 848. ASU 2020-04 defers the sunset date of ASC 848 from December 31, 2022, to December 31, 2024 because the current relief in ASC 848 did not cover the current June 30, 2023 intended cessation date for the overnight 1-, 3-, 6-, and 12-month tenors of USD LIBOR. Management has established a working group to evaluate the impact of the transition from LIBOR on the Company and its consolidated financial statements. The working group has developed an inventory of impacted contracts and client relationships and is in the process of assessing LIBOR alternatives and how such alternatives may be implemented.

NOTE 4—INVESTMENT SECURITIES

The following tables summarizes the amortized cost and fair value of AFS and HTM debt securities and equity investments and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses recognized in earnings (in thousands):

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At December 31, 2022	Amortized Cost	Gross Unrealized/Unrecognized Gains	Gross Unrealized/Unrecognized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government agency securities	\$ 67,996	\$ —	\$ (8,624)	\$ 59,372
U.S. State and Municipal securities	11,649	—	(2,437)	9,212
Residential MBS	413,998	279	(75,729)	338,548
Commercial MBS	37,069	10	(2,229)	34,850
Asset-backed securities	3,953	—	(188)	3,765
Total securities available-for-sale	<u>\$ 534,665</u>	<u>\$ 289</u>	<u>\$ (89,207)</u>	<u>\$ 445,747</u>
Held-to-Maturity Securities:				
U.S. Treasury securities	\$ 29,852	\$ —	\$ (2,223)	\$ 27,629
U.S. State and Municipal securities	15,814	—	(2,609)	13,205
Residential MBS	456,648	—	(67,027)	389,621
Commercial MBS	8,111	—	(1,276)	6,835
Total securities held-to-maturity	<u>\$ 510,425</u>	<u>\$ —</u>	<u>\$ (73,135)</u>	<u>\$ 437,290</u>
Equity Investments:				
CRA Mutual Fund	\$ 2,358	\$ —	\$ (310)	\$ 2,048
Total equity investment securities	<u>\$ 2,358</u>	<u>\$ —</u>	<u>\$ (310)</u>	<u>\$ 2,048</u>
At December 31, 2021	Amortized Cost	Gross Unrealized/Unrecognized Gains	Gross Unrealized/Unrecognized Losses	Fair Value
Available-for-Sale Securities:				
U.S. Government agency securities	\$ 67,994	\$ —	\$ (1,660)	\$ 66,334
U.S. State and Municipal securities	11,799	—	(300)	11,499
Residential MBS	476,393	623	(10,465)	466,551
Commercial MBS	17,787	219	(379)	17,627
Asset-backed securities	4,635	—	(22)	4,613
Total securities available-for-sale	<u>\$ 578,608</u>	<u>\$ 842</u>	<u>\$ (12,826)</u>	<u>\$ 566,624</u>
Held-to-Maturity Securities:				
U.S. Treasury securities	\$ 29,811	\$ 6	\$ (43)	\$ 29,774
U.S. State and Municipal securities	16,055	299	—	16,354
Residential MBS	328,095	105	(2,259)	325,941
Commercial MBS	8,138	—	(99)	8,039
Total securities held-to-maturity	<u>\$ 382,099</u>	<u>\$ 410</u>	<u>\$ (2,401)</u>	<u>\$ 380,108</u>
Equity Investments:				
CRA Mutual Fund	\$ 2,326	\$ —	\$ (53)	\$ 2,273
Total equity investment securities	<u>\$ 2,326</u>	<u>\$ —</u>	<u>\$ (53)</u>	<u>\$ 2,273</u>

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The following table summarizes the proceeds and associated gains and (losses) from sales and calls of securities (in thousands):

	Year ended December 31,		
	2022	2021	2020
Proceeds	\$ —	\$ 43,241	\$ 141,422
Gross gains	\$ —	\$ 609	\$ 3,286
Tax impact	\$ —	\$ (197)	\$ (1,036)

The tables below summarize, by contractual maturity, the amortized cost and fair value of debt securities. The tables do not include the effect of principal repayments or scheduled principal amortization. Equity securities, primarily investment in mutual funds, have been excluded from the table. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

At December 31, 2022	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 year through 5 years	29,852	27,630	54,736	48,959
After 5 years through 10 years	9,505	8,130	36,043	32,872
After 10 years	471,068	401,530	443,886	363,916
Total Securities	\$ 510,425	\$ 437,290	\$ 534,665	\$ 445,747

At December 31, 2021	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	\$ —	\$ —	\$ —	\$ —
After 1 year through 5 years	29,811	29,774	48,515	47,370
After 5 years through 10 years	9,973	9,912	36,242	36,024
After 10 years	342,315	340,422	493,851	483,230
Total Securities	\$ 382,099	\$ 380,108	\$ 578,608	\$ 566,624

There were \$25.0 million and \$0.0 securities pledged to the FRBNY discount window at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, all Residential and Commercial MBS held by the Company were issued by U.S. government-sponsored entities and agencies.

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Debt securities with unrealized/unrecognized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized/Unrecognized Losses	Estimated Fair Value	Unrealized/Unrecognized Losses	Estimated Fair Value	Unrealized/Unrecognized Losses
At December 31, 2022						
Available-for-Sale Securities:						
U.S. Government agency securities	\$ —	\$ —	\$ 59,372	\$ (8,624)	\$ 59,372	\$ (8,624)
U.S. State and Municipal securities	2,546	(527)	6,666	(1,910)	9,212	(2,437)
Residential MBS	19,576	(1,654)	305,936	(74,075)	325,512	(75,729)
Commercial MBS	13,406	(198)	11,386	(2,031)	24,792	(2,229)
Asset-backed securities	—	—	3,765	(188)	3,765	(188)
Total securities available-for-sale	<u>\$ 35,528</u>	<u>\$ (2,379)</u>	<u>\$ 387,125</u>	<u>\$ (86,828)</u>	<u>\$ 422,653</u>	<u>\$ (89,207)</u>
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 18,683	\$ (1,365)	\$ 8,946	\$ (858)	\$ 27,629	\$ (2,223)
U.S. State and Municipal securities	13,205	(2,609)	—	—	13,205	(2,609)
Residential MBS	162,960	(19,625)	226,661	(47,402)	389,621	(67,027)
Commercial MBS	—	—	6,835	(1,276)	6,835	(1,276)
Asset-backed securities	—	—	—	—	—	—
Total securities held-to-maturity	<u>\$ 194,848</u>	<u>\$ (23,599)</u>	<u>\$ 242,442</u>	<u>\$ (49,536)</u>	<u>\$ 437,290</u>	<u>\$ (73,135)</u>
At December 31, 2021						
Available-for-Sale Securities:						
U.S. Government agency securities	\$ 29,267	\$ (730)	\$ 37,067	\$ (930)	\$ 66,334	\$ (1,660)
U.S. State and Municipal securities	8,372	(300)	—	—	8,372	(300)
Residential MBS	423,686	(9,727)	12,931	(738)	436,617	(10,465)
Commercial MBS	11,202	(296)	3,511	(83)	14,713	(379)
Asset-backed securities	4,613	(22)	—	—	4,613	(22)
Total securities available-for-sale	<u>\$ 477,140</u>	<u>\$ (11,075)</u>	<u>\$ 53,509</u>	<u>\$ (1,751)</u>	<u>\$ 530,649</u>	<u>\$ (12,826)</u>
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 9,697	\$ (43)	\$ —	\$ —	\$ 9,697	\$ (43)
Residential MBS	301,896	(2,259)	—	—	301,896	(2,259)
Commercial MBS	8,039	(99)	—	—	8,039	(99)
Total securities held-to-maturity	<u>\$ 319,632</u>	<u>\$ (2,401)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 319,632</u>	<u>\$ (2,401)</u>

The Company did not consider these securities to be OTTI at December 31, 2022 or 2021 since the decline in market value was attributable to changes in interest rates and not to changes in credit quality. In addition, the Company does not intend to sell and does not believe that it is more likely than not that it will be required to sell these investments until there is a full recovery of the unrealized loss, which may be at maturity. As a result, no impairment loss was recognized during the years ended December 31, 2022 or 2021.

At December 31, 2022 and 2021, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

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NOTE 5—LOANS

Loans, net of deferred fees and costs, consist of the following (in thousands):

	At December 31,	
	2022	2021
Real estate		
Commercial	\$ 3,254,508	\$ 2,488,382
Construction	143,693	151,791
Multi-family	468,540	355,290
One-to four-family	53,207	57,163
Total real estate loans	3,919,948	3,052,626
Commercial and industrial	908,616	654,535
Consumer	24,931	32,366
Total loans	4,853,495	3,739,527
Deferred fees, net of origination costs	(12,972)	(7,598)
Loans, net of deferred fees and costs	4,840,523	3,731,929
Allowance for loan losses	(44,876)	(34,729)
Net loans	<u>\$ 4,795,647</u>	<u>\$ 3,697,200</u>

Included in C&I loans at December 31, 2022 and 2021 were \$97,000 and \$561,000, respectively, of PPP loans. Also included in C&I loans at December 31, 2022 and 2021 were \$0.0 and \$4.1 million, respectively, of loans held for sale, measured at the lower of cost or fair value.

The following tables present the activity in the ALLL by segment. The portfolio segments represent the categories that the Company uses to determine its ALLL (in thousands):

Year ended December 31, 2022	Commercial Real Estate	Commercial & Industrial	Construction	Multi-family	One-to four- Family	Consumer	Total
Allowance for loan losses:							
Beginning balance	\$ 22,216	\$ 7,708	\$ 2,105	\$ 2,156	\$ 140	\$ 404	\$ 34,729
Provision (credit) for loan losses	7,280	2,540	(122)	667	(35)	(214)	10,116
Loans charged-off	—	—	—	—	—	—	—
Recoveries	—	26	—	—	—	5	31
Total ending allowance balance	<u>\$ 29,496</u>	<u>\$ 10,274</u>	<u>\$ 1,983</u>	<u>\$ 2,823</u>	<u>\$ 105</u>	<u>\$ 195</u>	<u>\$ 44,876</u>
Year ended December 31, 2021	Commercial Real Estate	Commercial & Industrial	Construction	Multi-family	One-to four- Family	Consumer	Total
Allowance for loan losses:							
Beginning balance	\$ 17,243	\$ 12,123	\$ 1,593	\$ 2,661	\$ 206	\$ 1,581	\$ 35,407
Provision (credit) for loan losses	4,973	24	512	(505)	(66)	(1,122)	3,816
Loans charged-off	—	(4,764)	—	—	—	(55)	(4,819)
Recoveries	—	325	—	—	—	—	325
Total ending allowance balance	<u>\$ 22,216</u>	<u>\$ 7,708</u>	<u>\$ 2,105</u>	<u>\$ 2,156</u>	<u>\$ 140</u>	<u>\$ 404</u>	<u>\$ 34,729</u>

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The following tables present the balance in the ALLL and the recorded investment in loans by portfolio segment based on impairment method (in thousands):

<u>At December 31, 2022</u>	<u>Commercial Real Estate</u>	<u>Commercial & Industrial</u>	<u>Construction</u>	<u>Multi-family</u>	<u>One-to four-Family</u>	<u>Consumer</u>	<u>Total</u>
<u>Allowance for loan losses:</u>							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 24	\$ 24
Collectively evaluated for impairment	29,496	10,274	1,983	2,823	105	171	44,852
Total ending allowance balance	<u>\$ 29,496</u>	<u>\$ 10,274</u>	<u>\$ 1,983</u>	<u>\$ 2,823</u>	<u>\$ 105</u>	<u>\$ 195</u>	<u>\$ 44,876</u>
<u>Loans:</u>							
Individually evaluated for impairment	\$ 26,740	\$ —	\$ —	\$ —	\$ 899	\$ 24	\$ 27,663
Collectively evaluated for impairment	3,227,768	908,616	143,693	468,540	52,308	24,907	4,825,832
Total ending loan balance	<u>\$ 3,254,508</u>	<u>\$ 908,616</u>	<u>\$ 143,693</u>	<u>\$ 468,540</u>	<u>\$ 53,207</u>	<u>\$ 24,931</u>	<u>\$ 4,853,495</u>
<u>At December 31, 2021</u>	<u>Commercial Real Estate</u>	<u>Commercial & Industrial</u>	<u>Construction</u>	<u>Multi-family</u>	<u>One-to four-Family</u>	<u>Consumer</u>	<u>Total</u>
<u>Allowance for loan losses:</u>							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ 26	\$ 170	\$ 196
Collectively evaluated for impairment	22,216	7,708	2,105	2,156	114	234	34,533
Total ending allowance balance	<u>\$ 22,216</u>	<u>\$ 7,708</u>	<u>\$ 2,105</u>	<u>\$ 2,156</u>	<u>\$ 140</u>	<u>\$ 404</u>	<u>\$ 34,729</u>
<u>Loans:</u>							
Individually evaluated for impairment	\$ 38,518	\$ —	\$ —	\$ —	\$ 946	\$ 302	\$ 39,766
Collectively evaluated for impairment	2,449,864	654,535	151,791	355,290	56,217	32,064	3,699,761
Total ending loan balance	<u>\$ 2,488,382</u>	<u>\$ 654,535</u>	<u>\$ 151,791</u>	<u>\$ 355,290</u>	<u>\$ 57,163</u>	<u>\$ 32,366</u>	<u>\$ 3,739,527</u>

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The following tables present loans individually evaluated for impairment (in thousands). The recorded investment in loans excludes accrued interest receivable and loan origination fees.

	At December 31, 2022			Year ended December 31, 2022	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Consumer	\$ 24	\$ 24	\$ 24	79	—
Total	<u>\$ 24</u>	<u>\$ 24</u>	<u>\$ 24</u>	<u>\$ 79</u>	<u>\$ —</u>
Without an allowance recorded:					
One-to four-family	\$ 1,176	\$ 899	\$ —	\$ 832	\$ 31
CRE	<u>27,984</u>	<u>26,740</u>	<u>—</u>	<u>30,142</u>	<u>1,041</u>
Total	<u>\$ 29,160</u>	<u>\$ 27,639</u>	<u>\$ —</u>	<u>\$ 30,974</u>	<u>\$ 1,072</u>
	At December 31, 2021			Year ended December 31, 2021	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
One-to four-family	\$ 577	\$ 447	\$ 26	\$ 462	\$ 21
Consumer	<u>302</u>	<u>302</u>	<u>170</u>	<u>1,766</u>	<u>84</u>
C&I	—	—	—	<u>2,726</u>	—
Total	<u>\$ 879</u>	<u>\$ 749</u>	<u>\$ 196</u>	<u>\$ 4,954</u>	<u>\$ 105</u>
Without an allowance recorded:					
One-to four-family	\$ 646	\$ 499	\$ —	\$ 509	\$ 26
CRE	<u>38,518</u>	<u>38,518</u>	<u>—</u>	<u>15,975</u>	<u>325</u>
C&I	—	—	—	<u>77</u>	—
Total	<u>\$ 39,164</u>	<u>\$ 39,017</u>	<u>\$ —</u>	<u>\$ 16,561</u>	<u>\$ 351</u>

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	At December 31, 2020			Year ended December 31, 2020	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
One-to four-family	\$ 610	\$ 480	\$ 53	\$ 491	\$ 19
Consumer	2,197	2,197	1,203	1,503	88
C&I	4,192	4,192	3,662	3,456	—
Total	<u>\$ 6,999</u>	<u>\$ 6,869</u>	<u>\$ 4,918</u>	<u>\$ 5,450</u>	<u>\$ 107</u>
Without an allowance recorded:					
One-to four-family	\$ 666	\$ 519	\$ —	\$ 996	\$ 20
CRE	10,345	10,345	—	2,360	38
C&I	—	—	—	951	—
Total	<u>\$ 11,011</u>	<u>\$ 10,864</u>	<u>\$ —</u>	<u>\$ 4,307</u>	<u>\$ 58</u>

For a loan to be considered impaired, management determines whether it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management applies its normal loan review procedures in making these judgments. Impaired loans include individually classified non-accrual loans and TDRs. Impairment is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate. For loans that are collateral dependent, the fair value of the collateral is used to determine the fair value of the loan. The fair value of the collateral is determined based on recent appraised values. The fair value of the collateral or present value of expected cash flows is compared to the carrying value to determine if any write-down or specific loan loss allowance allocation is required.

For discussion on modification of loans to borrowers impacted by COVID-19, refer to the "COVID-19 Loan Modifications" section herein.

The following tables present the recorded investment in non-accrual loans, loans past due over 90 days and still accruing by class of loans (in thousands):

	Loans Past Due Over 90 Days	
	Nonaccrual	Still Accruing
At December 31, 2022		
Consumer	\$ 24	\$ —
Total	<u>\$ 24</u>	<u>\$ —</u>
At December 31, 2021		
Commercial real estate	\$ 9,984	\$ —
Consumer	37	265
Total	<u>\$ 10,021</u>	<u>\$ 265</u>

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Interest income that would have been recorded for the years ended December 31, 2022, 2021 and 2020, had non-accrual loans been current according to their original terms, was immaterial.

The following table presents the aging of the recorded investment in past due loans by class of loans (in thousands):

<u>At December 31, 2022</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days and greater</u>	<u>Total past due</u>	<u>Current loans</u>	<u>Total</u>
Commercial real estate	\$ —	\$ 24,000	\$ —	\$ 24,000	\$ 3,230,508	\$ 3,254,508
Commercial & industrial	37	—	—	37	908,579	908,616
Construction	—	—	—	—	143,693	143,693
Multi-family	8,000	—	—	8,000	460,540	468,540
One-to four-family	—	—	—	—	53,207	53,207
Consumer	21	—	24	45	24,886	24,931
Total	<u>\$ 8,058</u>	<u>\$ 24,000</u>	<u>\$ 24</u>	<u>\$ 32,082</u>	<u>\$ 4,821,413</u>	<u>\$ 4,853,495</u>

<u>At December 31, 2021</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90 Days and greater</u>	<u>Total past due</u>	<u>Current loans</u>	<u>Total</u>
Commercial real estate	\$ —	\$ —	\$ 9,984	\$ 9,984	\$ 2,478,398	\$ 2,488,382
Commercial & industrial	151	—	—	151	654,384	654,535
Construction	—	—	—	—	151,791	151,791
Multi-family	—	—	—	—	355,290	355,290
One-to four-family	—	—	—	—	57,163	57,163
Consumer	93	94	302	489	31,877	32,366
Total	<u>\$ 244</u>	<u>\$ 94</u>	<u>\$ 10,286</u>	<u>\$ 10,624</u>	<u>\$ 3,728,903</u>	<u>\$ 3,739,527</u>

Troubled Debt Restructurings

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired.

Included in impaired loans at both December 31, 2022 and 2021 were \$1.2 million and \$1.3 million, respectively, of loans modified as TDRs. The ALLL for TDRs was \$0.0 and \$26,000 as of December 31, 2022 and 2021, respectively. All TDRs at December 31, 2022 and 2021 were performing in accordance with their restructured terms. During the years ended December 31, 2022 and 2021, there were no payment defaults on any loans previously identified as TDRs. There were no loans modified as a TDR during the years ended December 31, 2022 or 2021. The Company has not committed to lend additional amounts as of December 31, 2022 to customers with outstanding loans that are classified as TDRs. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed pursuant to the Company's internal underwriting policy. The following table presents the recorded investment in TDRs by class of loans (in thousands):

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Commercial real estate	\$ 325	\$ 342
One-to four-family	899	946
Total	<u>\$ 1,224</u>	<u>\$ 1,288</u>

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Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Except for one-to four-family loans and consumer loans, the Company analyzes loans individually by classifying the loans as to credit risk at least annually. For one-to four-family loans and consumer loans, the Company evaluates credit quality based on the aging status of the loan, which was previously presented. An analysis is performed on a quarterly basis for loans classified as special mention, substandard, or doubtful. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above are classified as pass-rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

At December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$ 3,192,212	\$ 35,881	\$ 26,415	\$ —	\$ 3,254,508
Commercial & industrial	876,867	31,749	—	—	908,616
Construction	143,693	—	—	—	143,693
Multi-family	468,540	—	—	—	468,540
Total	\$ 4,681,312	\$ 67,630	\$ 26,415	\$ —	\$ 4,775,357

At December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$ 2,449,864	\$ 342	\$ 38,176	\$ —	\$ 2,488,382
Commercial & industrial	646,251	4,177	4,107	—	654,535
Construction	151,791	—	—	—	151,791
Multi-family	355,290	—	—	—	355,290
Total	\$ 3,603,196	\$ 4,519	\$ 42,283	\$ —	\$ 3,649,998

COVID-19 Loan Modifications

As of December 31, 2022, the Company had one loan amounting to \$20.8 million, or 0.43% of total loans, that was modified in accordance with the COVID-19 Guidance and the CARES Act. As of December 31, 2022, related principal payment deferrals were \$20.8 million, or 0.43% of total loans, while none were full payment deferrals.

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As of December 31, 2021, the Company had 8 loans amounting to \$48.9 million, or 1.31% of total loans, that were modified in accordance with the COVID-19 Guidance and the CARES Act. As of December 31, 2021, principal payment deferrals were \$39.1 million, or 1.05% of total loans, while full payment deferrals were \$9.9 million, or 0.26% of total loans.

NOTE 6 — LEASES

The Company leases its corporate office, banking centers and loan production offices. The following tables present the Company's lease cost and other information related to its operating leases (dollars in thousands):

	At December 31, 2022
Supplemental balance sheet information:	
Lease assets	\$ 44,339
Lease liabilities	\$ 48,364
Weighted average remaining lease term in years	11
Weighted average discount rate	2.26 %

	Year Ended December 31, 2022
Operating Lease cost	\$ 5,405
Cash paid for amount included in the measurement of operating lease liabilities	\$ 4,864

The following table presents the remaining maturity of lease liabilities as well as the reconciliation of undiscounted lease payments to the discounted operating lease liabilities (in thousands):

	At December 31, 2022
Lease liabilities maturing in:	
2023	\$ 5,202
2024	4,976
2025	4,990
2026	5,008
2027	4,632
Thereafter	30,276
Total	\$ 55,084
Less: Present value discount	(6,720)
Total lease liabilities	<u><u>\$ 48,364</u></u>

Total rent expense for the year ended December 31, 2021 and 2020 was \$4.9 million and \$4.7 million, respectively.

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NOTE 7—PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows (in thousands):

	At December 31,	
	2022	2021
Furniture and Equipment	\$ 14,451	\$ 13,032
Land, buildings and improvements	13,479	—
Leasehold Improvements	20,595	16,266
Total Premises and Equipment	48,525	29,298
Less accumulated depreciation and amortization	(16,656)	(14,182)
Total Premises and Equipment, net	<u>\$ 31,869</u>	<u>\$ 15,116</u>

Depreciation and amortization expense amounted to \$2.5 million, \$2.4 million and \$2.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

NOTE 8—DEPOSITS

Deposits consisted of the following (in thousands):

	At December 31,	
	2022	2021
Noninterest bearing demand accounts	\$ 2,422,151	\$ 3,668,673
Money market	2,792,554	2,666,983
Savings accounts	11,144	20,930
Time deposits	52,063	78,986
Total deposits	<u>\$ 5,277,912</u>	<u>\$ 6,435,572</u>

Time deposits greater than \$250,000 at December 31, 2022 and 2021 were \$30.8 million and \$39.4 million, respectively.

The following table presents the scheduled annual maturities of time deposits (in thousands):

	At December 31,
	2022
2023	\$ 37,614
2024	11,263
2025	2,362
2026	349
2027	475
Total time deposits	<u>\$ 52,063</u>

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NOTE 9—BORROWINGS

Federal Funds Purchased and FHLB Advances

Federal funds purchased and FHLBNY advances consisted of the following (in thousands):

	At December 31,		Interest expense		
	2022	2021	2022	2021	2020
Federal funds purchased	\$ 150,000	\$ —	\$ 601	\$ —	\$ —
Federal Home Loan Bank of New York advances	\$ 100,000	\$ —	\$ 292	\$ —	\$ 1,742

Federal funds purchased are generally overnight transactions and had a weighted average interest rate of 4.65% at December 31, 2022. The FHLBNY advances at December 31, 2022 have a maturity date of January 11, 2023 and a fixed interest rate of 4.58%.

At December 31, 2022, the Company had available borrowing capacity of \$984.4 million at the FHLBNY, and available borrowing capacity of \$137.6 million at the FRBNY discount window.

Trust Preferred Securities Payable

On December 7, 2005, the Company established MetBank Capital Trust I, a Delaware statutory trust (“Trust I”). The Company received all of the common stock of Trust I in exchange for contributed capital of \$310,000. Trust I issued \$10.0 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of Trust I’s common capital securities, in the Company through the purchase of \$10.3 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the “Debentures”) issued by the Company. The Debentures, the sole assets of Trust I, mature on December 9, 2035 and bear interest at a floating rate of three-month LIBOR plus 1.85%. The Debentures are callable at any time. The interest rates were 5.93% and 1.97% as of December 31, 2022 and 2021, respectively.

On July 14, 2006, the Company established MetBank Capital Trust II, a Delaware statutory trust (“Trust II”). The Company received all of the common stock of Trust II in exchange for contributed capital of \$310,000. Trust II issued \$10 million of preferred capital securities to investors in a private transaction and invested the proceeds, combined with the proceeds from the sale of Trust II’s common capital securities, in the Company through the purchase of \$10.3 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the “Debentures II”) issued by the Company. The Debentures II, the sole assets of Trust II, mature on October 7, 2036, and bear interest at a floating rate of three-month LIBOR plus 2.00%. The Debentures II are callable at any time. The interest rates were 6.08% and 2.12% as of December 31, 2022 and 2021, respectively.

The Company is not considered the primary beneficiary of these trusts; therefore, the trusts are not consolidated in the Company’s financial statements. Interest on the subordinated debentures may be deferred by the Company at any time or from time to time for a period not exceeding twenty consecutive quarterly payments (5 years), provided there is no event of default. At the end of the deferral period, the Company must pay accrued interest, at which point it may elect a new deferral period provided that no deferral may extend beyond maturity.

The investments in the common stock of Trust I and Trust II are included in other assets on the consolidated statements of financial condition. The subordinated debentures may be included in Tier 1 capital (with certain applicable limitations) under current regulatory guidelines and interpretations.

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Subordinated Debt

On March 8, 2017, the Company issued \$25.0 million of subordinated notes to accredited institutional investors. The subordinated notes had a maturity date of March 15, 2027 and an interest rate of 6.25% per annum. During the first quarter of 2022, the Company redeemed all of the subordinated debt, plus accrued interest.

LIBOR Transition

The terms of the trust preferred securities may be impacted by the transition from LIBOR to an alternative U.S. dollar reference interest rate, potentially SOFR, in 2023. The overnight and 1-, 3-, 6- and 12-month USD LIBOR settings will cease to be published or cease to be representative after June 30, 2023. All other LIBOR settings ceased to be published or to be representative as of December 31, 2021. Management is currently evaluating the impact of the transition on the trust preferred securities.

NOTE 10—INCOME TAXES

Income tax expense consisted of the following (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Current			
Federal	\$ 27,311	\$ 16,883	\$ 10,936
State and local	14,162	12,252	7,226
Total current	<u>41,473</u>	<u>29,135</u>	<u>18,162</u>
Deferred			
Federal	(1,919)	(405)	139
State and local	(2,081)	285	151
Total deferred	<u>(4,000)</u>	<u>(120)</u>	<u>290</u>
Total income tax expense	<u><u>\$ 37,473</u></u>	<u><u>\$ 29,015</u></u>	<u><u>\$ 18,452</u></u>

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Deferred tax assets and liabilities consist of the following (in thousands):

	At December 31,	
	2022	2021
Deferred tax assets:		
Allowance for loan losses	\$ 13,698	\$ 10,670
Lease liabilities	14,782	—
Net unrealized loss on securities available for sale	27,084	3,731
Off balance sheet reserves	55	55
Restricted stock	1,140	252
Tangible asset	7	10
Non-qualified stock options	285	286
Other	95	—
Total gross deferred tax assets	57,146	15,004
Deferred tax liabilities:		
Right of use lease asset	13,551	—
Depreciation and amortization	4,390	3,229
Net unrealized gain on interest rate cap	3,302	334
Prepaid assets	548	459
Other	—	12
Total gross deferred tax liabilities	21,791	4,034
Net deferred tax asset, included in other assets	\$ 35,355	\$ 10,970

The following is a reconciliation of the Company's statutory federal income tax rate to its effective tax rate (in thousands):

	For the year ended December 31,					
	2022		2021		2020	
	Tax expense/ (benefit)	Rate	Tax expense/ (benefit)	Rate	Tax expense/ (benefit)	Rate
Pretax income at statutory rates	\$ 20,349	21.00 %	\$ 18,810	21.00 %	\$ 12,163	21.00 %
State and local taxes, net of federal income tax benefit	9,544	9.85	9,904	11.06	5,828	10.06
Nondeductible expenses	8,175	8.44	680	0.76	457	0.79
Stock options	(302)	(0.31)	—	—	—	—
Excess tax deduction on equity awards	—	—	(467)	(0.52)	(59)	(0.10)
Tax-exempt income, net	(106)	(0.11)	(51)	(0.06)	—	—
Other	(187)	(0.20)	139	0.15	63	0.11
Effective income tax expense/rate	\$ 37,473	38.67 %	\$ 29,015	32.39 %	\$ 18,452	31.86 %

The Company and the Bank filed consolidated Federal, New York State, Connecticut and New York City tax returns in 2022 and 2021. The Company is subject to California, Connecticut, Kentucky, Massachusetts, New Jersey, New York State, New York City, and Tennessee income taxes on a consolidated basis. The Bank is subject to Alabama, Florida, and Missouri income taxes on a separate company basis.

As of December 31, 2022 and 2021, there are no unrecognized tax benefits, and the Company does not expect this to significantly change in the next twelve months. Except for California, Connecticut, Kentucky, New York City and Tennessee, the Company is no longer subject to examination by the U.S. federal and state or local tax authorities for years prior to 2019. California is subject to examination for years 2016 and forward. Connecticut, Kentucky and Tennessee are no longer subject to examination for years prior to 2018. As of December 31, 2022, the Company was under audit in New

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York for the 2018 tax year, and in New York City for the 2017 and 2018 tax years. Due to the New York City audit, the 2017 tax year New York City statute of limitation has been extended to June 30, 2023.

NOTE 11—RELATED PARTY TRANSACTIONS

Deposits from principal officers, directors, and their affiliates at December 31, 2022 and 2021 were \$4.6 million and \$7.3 million, respectively.

A promissory note of \$780,000 was made to an executive officer of the Company during 2016. The note had a fixed interest rate of 2.1% per annum and interest is payable on the last day of each calendar quarter. The note had a balloon payment term and the due date was August 15, 2021, with no prepayment penalty. The note was extended for the same outstanding balance of \$780,000. Under the revised terms of the note, the note has a fixed interest rate of 1.09% per annum and interest is payable on the last day of each calendar quarter, with no prepayment penalty. The note has a balloon payment term and the due date is August, 15, 2026, with no prepayment penalty. The outstanding balance of the subject loan was \$780,000 as of December 31, 2022 and 2021.

NOTE 12—FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at December 31, 2022 and December 31, 2021. AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as certain impaired loans. These non-recurring fair value adjustments generally involve the write-down of individual assets due to impairment losses.

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Assets and Liabilities Measured on a Recurring Basis

Instruments measured on a recurring basis include the Company's AFS securities portfolio, equity investments and an interest rate cap derivative contract. The AFS portfolio is carried at estimated fair value with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. Equity investments are carried at estimated fair value with changes in fair value reported as "unrealized gain/(loss)" on the statements of operations. The interest rate cap derivative contract was carried at its estimated fair value with changes in fair value reported as accumulated other comprehensive income or loss in shareholders' equity. The fair values for substantially all of these assets are obtained monthly from an independent nationally recognized pricing service. On a quarterly basis, the Company assesses the reasonableness of the fair values obtained for the AFS portfolio by reference to a second independent nationally recognized pricing service. Based on the nature of these securities, the Company's

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independent pricing service provides prices which are categorized as Level 2 since quoted prices in active markets for identical assets are generally not available for the majority of securities in the Company's portfolio. Various modeling techniques are used to determine pricing for the Company's mortgage-backed securities, including option pricing and discounted cash flow models. The inputs to these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. At least annually, management conducts due diligence on the independent pricing services to review changes to their pricing methodologies and confirm compliance with various regulatory guidelines including information security guidelines, technology infrastructure and business continuity programs.

There are no liabilities that are measured on a recurring basis.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurement using:			
	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2022				
U.S. Government agency securities	\$ 59,372	\$ —	\$ 59,372	\$ —
U.S. State and Municipal securities	9,212	—	9,212	—
Residential mortgage securities	338,548	—	338,548	—
Commercial mortgage securities	34,850	—	34,850	—
Asset-backed securities	3,765	—	3,765	—
CRA Mutual Fund	2,048	2,048	—	—
Derivative assets - interest rate cap	—	—	—	—

	Fair Value Measurement using:			
	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2021				
U.S. Government agency securities	\$ 66,334	\$ —	\$ 66,334	\$ —
U.S. State and Municipal securities	11,499	—	11,499	—
Residential mortgage securities	466,551	—	466,551	—
Commercial mortgage securities	17,627	—	17,627	—
Asset-backed securities	4,613	—	4,613	—
CRA Mutual Fund	2,273	2,273	—	—
Derivative assets - interest rate cap	3,385	—	3,385	—

There were no transfers between Level 1 and Level 2 during 2022 or 2021.

There were no material assets measured at fair value on a non-recurring basis at December 31, 2022 or December 31, 2021.

The Company has engaged an independent pricing service provider to provide the fair values of its financial assets and liabilities not measured at fair value. This provider follows FASB's exit pricing guidelines, as required by ASC 820 Fair Value Measurement, when calculating the fair market value.

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Carrying amount and estimated fair values of financial instruments not carried at fair value were as follows (in thousands):

At December 31, 2022	Fair Value Measurement Using:					Total Fair Value
	Carrying Amount	Quoted Prices in Active Markets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	For Identical Assets (Level 1)					
Financial Assets:						
Cash and due from banks	\$ 26,780	\$ 26,780	\$ —	\$ —	\$ 26,780	
Overnight deposits	230,638	230,638	—	—	—	230,638
Securities held-to-maturity	510,425	—	437,290	—	—	437,290
Loans, net	4,840,523	—	—	4,737,007	—	4,737,007
Other investments						
FRB Stock	11,421	N/A	N/A	N/A	N/A	N/A
FHLB Stock	9,191	N/A	N/A	N/A	N/A	N/A
Disability Fund	1,000	—	1,000	—	—	1,000
Time deposits at banks	498	498	—	—	—	498
Receivable from prepaid card programs, net	85,605	—	—	85,605	—	85,605
Accrued interest receivable	24,107	—	964	23,143	—	24,107
Financial Liabilities:						
Non-interest-bearing demand deposits	\$ 2,422,151	\$ 2,422,151	\$ —	\$ —	\$ —	\$ 2,422,151
Money market and savings deposits	2,803,698	2,803,698	—	—	—	2,803,698
Time deposits	52,063	—	51,058	—	—	51,058
Federal funds purchased	150,000	—	150,000	—	—	150,000
Federal Home Loan Bank of New York advances	100,000	—	100,000	—	—	100,000
Trust preferred securities payable	20,620	—	—	19,953	—	19,953
Prepaid debit cardholder balances	10,579	—	—	10,579	—	10,579
Accrued interest payable	728	112	293	323	—	728
Secured borrowings	7,725	—	7,725	—	—	7,725
At December 31, 2021						
Financial Assets:	Fair Value Measurement Using:					Total Fair Value
	Carrying Amount	Quoted Prices in Active Markets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	For Identical Assets (Level 1)					
Cash and due from banks	\$ 28,864	\$ 28,864	\$ —	\$ —	\$ —	\$ 28,864
Overnight deposits	2,330,486	2,330,486	—	—	—	2,330,486
Securities held-to-maturity	382,099	—	380,108	—	—	380,108
Loans, net	3,697,200	—	—	3,721,619	—	3,721,619
Other investments						
FRB Stock	7,430	N/A	N/A	N/A	N/A	N/A
FHLB Stock	3,070	N/A	N/A	N/A	N/A	N/A
Disability Fund	1,000	—	1,000	—	—	1,000
CRA - CD	498	498	—	—	—	498
Receivable from prepaid card programs, net	39,864	—	—	39,864	—	39,864
Accrued interest receivable	15,195	—	892	14,303	—	15,195
Financial Liabilities:						
Non-interest-bearing demand deposits	\$ 3,668,673	\$ 3,668,673	\$ —	\$ —	\$ —	\$ 3,668,673
Money market and savings deposits	2,687,913	2,687,913	—	—	—	2,687,913
Time deposits	78,986	—	79,187	—	—	79,187
Trust preferred securities payable	20,620	—	—	19,997	—	19,997
Subordinated debt, net of issuance cost	24,712	—	25,125	—	—	25,125
Prepaid debit cardholder balances	8,847	—	—	8,847	—	8,847
Accrued interest payable	746	5	633	108	—	746
Secured borrowings	32,461	—	32,507	—	—	32,507

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NOTE 13—STOCKHOLDERS’ EQUITY

During the third quarter of 2021, the Company issued 2.3 million shares of its common stock at a price of \$75 per share, resulting in net proceeds of \$162.7 million.

The Company had outstanding 272,636 shares of its Series F, Class B non-voting preferred stock, par value, \$0.01 per share. The stock was subordinate and junior to all indebtedness of the Company and to all other series of preferred stock of the Company. The holder of the Series F, Class B preferred stock was entitled to receive ratable dividends only if and when dividends were concurrently declared and payable on the shares of common shares. During the fourth quarter of 2021, the holder of the Series F, Class B Preferred Stock exchanged shares of Series F, Class B preferred stock for shares of the Company’s common stock.

NOTE 14—STOCK COMPENSATION PLAN

Equity Incentive Plan

At December 31, 2022, the Company maintained three stock compensation plans, the 2022 Equity Incentive Plan (the “2022 EIP”), the 2019 Equity Incentive Plan (the “2019 EIP”) and the 2009 Equity Incentive Plan (the “2009 EIP”). The 2019 EIP expired on May 31, 2022 but has outstanding restricted stock awards and PRSUs subject to vesting schedules. The 2009 EIP has also expired but has outstanding stock options that may still be exercised.

The 2022 EIP was approved on May 31, 2022 by stockholders of the Company. Under the 2022 EIP, the maximum number of shares of stock that may be delivered to participants in the form of restricted stock, restricted stock units and stock options, including ISOs and non-qualified stock options, is 358,000, subject to adjustment as set forth in the 2022 EIP, plus any awards that are forfeited under the 2019 EIP after March 15, 2022.

Stock Options

Under the terms of the 2022 EIP, a stock option cannot have an exercise price that is less than 100% of the fair market value of the shares covered by the stock option on the date of grant. In the case of an ISO granted to a 10% stockholder, the exercise price shall not be less than 110% of the fair market value of the shares covered by the stock option on the date of grant. In no event shall the exercise period exceed ten years from the date of grant of the option, except, in the case of an ISO granted to a 10% stockholder, the exercise period shall not exceed five years from the date of grant. The 2022 EIP contains a double trigger change in control feature, providing for an acceleration of vesting upon an involuntary termination of employment simultaneous with or following a change in control.

The fair value of each stock option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities based on historical volatilities of the Company’s common stock are not significant. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

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A summary of the status of the Company's stock options and the changes during the year is presented below:

	Year ended December 31, 2022	
	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	231,000	\$ 18.00
Granted	—	—
Exercised	(10,800)	18.00
Cancelled/forfeited	—	—
Outstanding, end of period	<u>220,200</u>	\$ 18.00
Options vested and exercisable at end of period	<u>220,200</u>	\$ 18.00
Weighted average remaining contractual life (years)		1.41
Weighted average intrinsic value		\$ 40.67

The intrinsic value of exercises was \$417,000 and \$0.0 for the years ended December 31, 2022 and 2021, respectively. There was no unrecognized compensation cost related to stock options at December 31, 2022 or 2021.

There was no compensation cost related to stock options during the year ended December 31, 2022, 2021 or 2020.

Restricted Stock Awards and Restricted Stock Units

The Company issued restricted stock awards and restricted stock units under the 2019 EIP and the 2009 EIP (collectively, "restricted stock grants") to certain key personnel. Each restricted stock grant vests based on the vesting schedule outlined in the restricted stock grant agreement. Restricted stock grants are subject to forfeiture if the holder is not employed by the Company on the vesting date.

In the first quarter of 2022, 2021 and 2020, 72,025, 78,582 and 60,307 restricted stock grants were issued to certain key personnel, respectively. One-third of these shares vest each year for three years beginning on March 1, 2023, March 1, 2022, and December 15, 2020, respectively. Total compensation cost that has been charged against income for restricted stock grants was \$4.5 million, \$2.4 million, and \$1.5 million for years ended December 31, 2022, 2021, and 2020, respectively. As of December 31, 2022, there was \$6.1 million of total unrecognized compensation expense related to the restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.65 years.

In January 2022, 11,126 restricted shares were granted to members of the Board of Directors, which vested in January 2023. In January 2019, 38,900 restricted shares were granted to members of the Board of Directors in lieu of retainer fees for three years of service. In the fourth quarter of 2020, 1,785 shares were granted to a new member of the Board of Directors, all of which vested in the fourth quarter of 2021. Total expense for these awards was \$300,000, \$410,000 and \$400,000 for the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, there was no unrecognized expense related to these grants.

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The following table summarizes the changes in the Company's restricted stock awards:

	Year ended					
	December 31, 2022		December 31, 2021		December 31, 2020	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	90,999	\$ 47.35	76,289	\$ 37.01	104,838	\$ 29.86
Granted	83,151	102.49	78,582	50.80	62,092	44.80
Forfeited	(578)	92.44	(10,200)	48.09	(31,781)	38.24
Vested	(44,010)	37.12	(53,672)	37.57	(58,860)	31.83
Outstanding at end of period	129,562	\$ 86.01	90,999	\$ 47.35	76,289	\$ 37.01

The total fair value of shares vested is \$3.6 million, \$2.0 million, and \$2.1 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Performance-Based Stock Units

During the second quarter of 2021, the Company established a long-term incentive award program under the 2019 EIP. Under the program, 90,000 PRSUs were awarded. During the second quarter of 2022, 20,800 PRSUs were forfeited and reissued pursuant to the 2022 EIP. The weighted average service inception date fair value of the outstanding awarded shares was \$6.0 million. At the beginning of 2023 and 2022, 29,200 and 30,000 PRSUs, respectively, were vested as all performance criteria were met. The remaining 30,800 PRSUs are scheduled to vest in February 2024, provided certain performance criteria are met in fiscal year 2023. All vested shares will not be delivered until the first quarter of 2024. Total compensation cost that has been charged against income for the PRSUs was \$1.9 million, for years ended December 31, 2022 and 2021, respectively.

During the first quarter of 2018, the Company established a long-term incentive award program under the 2009 Plan. Under the program, 90,000 PRSUs were awarded. For each award, the PRSUs were eligible to be earned over a three-year performance period based on personal performance and the Company's relative performance, in each case, as compared to certain measurement goals that were established at the onset of the performance period. These 90,000 PRSUs were earned at the end of the three-year period and vested in the first quarter of 2021. Total compensation cost that has been charged against income for the 2009 Plan was \$1.4 million for the year ended December 31, 2020.

NOTE 15—EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan for eligible employees. The contribution for any participant may not exceed the maximum amount allowable by law. Each year, the Company may elect to match a percentage of participant contributions. The Company may also elect each year to make additional discretionary contributions to the plan. The total contributions were \$889,000 and \$774,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 16—COMMITMENTS AND CONTINGENCIES

Financial instruments with off-balance-sheet risk

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

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statements. The Company's exposure to credit loss in the event of non-performance by the counterparty to the financial instrument for commitments to extend credit is represented by the contractual 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.

The following off-balance-sheet financial instruments whose contract amounts represent credit risk, are outstanding (in thousands):

	At December 31, 2022		At December 31, 2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused commitments	\$ 40,685	\$ 364,908	\$ 39,676	\$ 346,115
Standby and commercial letters of credit	53,947	—	49,988	—
	<u>\$ 94,632</u>	<u>\$ 364,908</u>	<u>\$ 89,664</u>	<u>\$ 346,115</u>

A commitment to extend credit is a legally binding agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally expire within two years. As of December 31, 2022 and 2021, the Company's fixed rate loan commitments are to make loans with interest rates ranging from 3.0% to 8.5%. At December 31, 2022 and 2021, the Company's variable rate loan commitments had interest rates ranging from 6.0% to 11.5%, respectively, with a maturity of one year or more. The amount of collateral obtained, if any, by the Company upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include mortgages on commercial and residential real estate, security interests in business assets, equipment, deposit accounts with the Company or other financial institutions and securities.

The Company's stand-by letters of credit amounted to \$53.9 million and \$50.0 million as of December 31, 2022 and 2021, respectively. The Company's stand-by letters of credit are collateralized by interest-bearing accounts of \$28.7 million and \$29.6 million as of December 31, 2022 and 2021, respectively.

Regulatory Proceedings

There are ongoing investigations by federal and state governmental entities concerning a prepaid debit card product program that was offered by the Company through an independent program manager. These include investigations as to which the Company is a subject by the FRB and certain state authorities, including the NYSDFS. During the early stages of the COVID-19 pandemic, third parties used this prepaid debit card product to establish unauthorized accounts and to receive unauthorized government benefits payments, including unemployment insurance benefits payments made pursuant to the CARES Act from many states. The Company ceased accepting new accounts from this program manager in July of 2020 and has exited its relationship with this program manager. The Company is cooperating in these investigations and continues to review this matter. The foregoing could result in enforcement or other actions against the Company and the Bank including civil money penalties and remedial measures.

The Company is in discussions with the FRB and the NYSDFS with respect to consensual resolutions of their investigations. Although the Company is unable at this time to determine the final terms on which the FRB and NYSDFS investigations will be resolved or the timing of such resolutions, the Company accrued a charge of \$35.0 million during the fourth quarter of 2022 to establish a reserve for what the Company believes is a reasonable estimate of the probable loss and expenses associated with the FRB and NYSDFS settlements. If final settlements with the FRB and the NYSDFS are not reached and the FRB and the NYSDFS bring public enforcement actions, such actions and their resolution, as well as any other matter arising out of the foregoing program, could have a materially adverse effect on the Company and the Bank's assets, business, cash flows, financial condition, liquidity, prospects and/or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17—REGULATORY CAPITAL

The Company and Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. At December 31, 2022 and 2021, the Company and the Bank met all applicable regulatory capital requirements to be considered “well capitalized” under regulatory guidelines. The Company and Bank manage their capital to comply with their internal planning targets and regulatory capital standards administered by federal banking agencies. The Company and Bank review capital levels on a monthly basis.

The Company and the Bank are subject to the Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III rules). The minimum required capital conservation buffer was 2.50% at December 31, 2022 and December 31, 2021. As of December 31, 2022 and 2021, the capital conservation buffer for the Company was 5.4% and 8.1%, respectively. As of December 31, 2022 and 2021, the capital conservation buffer for the Bank was 5.1% and 7.3%, respectively. The net unrealized gain or loss on AFS securities is not included in the computation of the regulatory capital. The Company and the Bank meet all capital adequacy requirements, to which they are subject, as of December 31, 2022 and 2021.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2022 and 2021, the most recent regulatory notifications categorized the Bank and the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

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The following is a summary of actual capital amounts and ratios for the Company and the Bank compared to the requirements for minimum capital adequacy and classification as well capitalized. Actual and required capital amounts and ratios are presented below at year end (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Regulations		Minimum Capital Conservation Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2022								
The Company								
Tier 1 leverage ratio (Tier 1 capital to average assets)	\$ 641,082	10.2 %	\$ 250,963	4.0 %	\$ N/A	N/A	—	%
Tier 1 common equity (to risk-weighted assets)	\$ 620,462	12.1 %	\$ 230,879	4.5 %	\$ N/A	N/A	2.5	%
Tier 1 capital (to risk-weighted assets)	\$ 641,082	12.5 %	\$ 307,838	6.0 %	\$ N/A	N/A	2.5	%
Total capital (to risk-weighted assets)	\$ 686,139	13.4 %	\$ 410,451	8.0 %	\$ N/A	N/A	2.5	%
The Bank								
Tier 1 leverage ratio (Tier 1 capital to average assets)	\$ 628,825	10.0 %	\$ 250,920	4.0 %	\$ 313,650	5.0 %	—	%
Tier 1 common equity (to risk-weighted assets)	\$ 628,825	12.3 %	\$ 230,815	4.5 %	\$ 333,399	6.5 %	2.5	%
Tier 1 capital (to risk-weighted assets)	\$ 628,825	12.3 %	\$ 307,753	6.0 %	\$ 410,337	8.0 %	2.5	%
Total capital (to risk-weighted assets)	\$ 673,876	13.1 %	\$ 410,337	8.0 %	\$ 512,922	10.0 %	2.5	%
At December 31, 2021								
The Company								
Tier 1 leverage ratio (Tier 1 capital to average assets)	\$ 575,380	8.5 %	\$ 270,863	4.0 %	\$ N/A	N/A	—	%
Tier 1 common equity (to risk-weighted assets)	\$ 554,760	14.1 %	\$ 177,646	4.5 %	\$ N/A	N/A	2.5	%
Tier 1 capital (to risk-weighted assets)	\$ 575,380	14.6 %	\$ 236,861	6.0 %	\$ N/A	N/A	2.5	%
Total capital (to risk-weighted assets)	\$ 635,002	16.1 %	\$ 315,815	8.0 %	\$ N/A	N/A	2.5	%
The Bank								
Tier 1 leverage ratio (Tier 1 capital to average assets)	\$ 566,835	8.4 %	\$ 270,800	4.0 %	\$ 338,499	5.0 %	—	%
Tier 1 common equity (to risk-weighted assets)	\$ 566,835	14.4 %	\$ 177,582	4.5 %	\$ 256,508	6.5 %	2.5	%
Tier 1 capital (to risk-weighted assets)	\$ 566,835	14.4 %	\$ 236,777	6.0 %	\$ 315,702	8.0 %	2.5	%
Total capital (to risk-weighted assets)	\$ 601,740	15.2 %	\$ 315,702	8.0 %	\$ 394,628	10.0 %	2.5	%

As a result of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, banking regulatory agencies adopted a revised definition of “well capitalized” for financial institutions and holding companies with assets of less than \$10.0 billion and that are not determined to be ineligible by their primary federal regulator due to their risk profile (a “Qualifying Community Bank”). The definition expanded the ways that a Qualifying Community Bank may meet its capital requirements and be deemed “well capitalized.” The rule established a community bank leverage ratio (“CBLR”) equal to the tangible equity capital divided by the average total consolidated assets. Regulators established the CBLR at 8.5% through calendar year 2021 and 9% thereafter. The CARES Act temporarily reduced the CBLR to 8%.

A Qualifying Community Bank that maintains a leverage ratio greater than 9% is considered to be well capitalized and to have met generally applicable leverage capital requirements, generally applicable risk-based capital requirements, and any other capital or leverage requirements to which such financial institution or holding company is subject. The Company and Bank intend to continue to measure capital adequacy using the ratios in the table above.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
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NOTE 18—EARNINGS PER COMMON SHARE

The Company uses the two-class method in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common stockholders for the period are allocated between common stockholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share calculation are as follows (in thousands, except per share data).

	Year Ended December 31,		
	2022	2021	2020
Basic			
Net income per consolidated statements of income	\$ 59,425	\$ 60,555	\$ 39,466
Less: Earnings allocated to participating securities	(141)	(739)	(344)
Net income available to common stockholders	<u>\$ 59,284</u>	<u>\$ 59,816</u>	<u>\$ 39,122</u>
Weighted average common shares outstanding including participating securities	10,955,077	9,123,037	8,293,677
Less: Weighted average participating securities	(26,056)	(111,337)	(72,248)
Weighted average common shares outstanding	<u>10,929,021</u>	<u>9,011,700</u>	<u>8,221,429</u>
Basic earnings per common share	<u><u>5.42</u></u>	<u><u>6.64</u></u>	<u><u>4.76</u></u>
Diluted			
Net income allocated to common stockholders	\$ 59,284	\$ 59,816	\$ 39,122
Weighted average common shares outstanding for basic earnings per common share	10,929,021	9,011,700	8,221,429
Add: Dilutive effects of assumed exercise of stock options	170,648	170,792	103,463
Add: Dilutive effects of assumed vesting of performance based restricted stock	56,711	51,581	73,552
Add: Dilutive effects of assumed vesting of restricted stock units	43,804	38,749	—
Average shares and dilutive potential common shares	<u>11,200,184</u>	<u>9,272,822</u>	<u>8,398,444</u>
Dilutive earnings per common share	<u><u>\$ 5.29</u></u>	<u><u>\$ 6.45</u></u>	<u><u>\$ 4.66</u></u>

All stock options and performance based restricted stock units were considered in computing diluted earnings per common share for the years ended December 31, 2022, 2021 and 2020.

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NOTE 19—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in Accumulated Other Comprehensive Income (Loss) balances, net of tax effects at the dates indicated (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Beginning balance	\$ (7,504)	\$ 973	\$ 1,207
Other comprehensive income, net of tax			
Unrealized gain (loss) on AFS securities:			
Unrealized holding gain (loss) arising during the period	(76,934)	(14,722)	4,877
Reclassification adjustment for (gain) loss included in net income	—	(609)	(3,286)
Tax effect	<u>23,353</u>	<u>4,795</u>	<u>(514)</u>
Net of tax	<u>(53,581)</u>	<u>(10,536)</u>	<u>1,077</u>
Unrealized gain (loss) on cash flow hedges:			
Unrealized holding gain (loss) arising during the period	11,704	2,957	(1,925)
Reclassification adjustment for gain included in net income	(1,949)	—	—
Tax effect	<u>(2,968)</u>	<u>(898)</u>	<u>614</u>
Net of tax	<u>6,787</u>	<u>2,059</u>	<u>(1,311)</u>
Net current period other comprehensive income (loss)	(46,794)	(8,477)	(234)
Ending balance	<u><u>\$ (54,298)</u></u>	<u><u>\$ (7,504)</u></u>	<u><u>\$ 973</u></u>

The proceeds from sales and calls of securities during the years ended December 31, 2022, 2021 and 2020 were \$0.0, \$43.2 million and \$141.4 million, respectively. The following table shows the amounts reclassified out of each component of accumulated other comprehensive income for the gain on the sale of securities (in thousands):

	Year Ended December 31,			Affected line item in the Consolidated Statements of Operations
	2022	2021	2020	
Realized gain on sale of AFS securities	\$ —	\$ 609	\$ 3,286	Gain on Sale of Securities
Income tax (expense) benefit	—	(197)	(1,036)	Income tax expense
Total reclassifications, net of income tax	<u>\$ —</u>	<u>\$ 412</u>	<u>\$ 2,250</u>	
Realized gain on cash flow hedges	\$ 1,949	\$ —	\$ —	Licensing fees
Income tax (expense) benefit	(599)	—	—	Income tax expense
Total reclassifications, net of income tax	<u>\$ 1,350</u>	<u>\$ —</u>	<u>\$ —</u>	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers that are in the scope of ASC 606, Revenue from Contracts with Customers are recognized in non-interest income. The following table presents the Company's revenue from contracts with customers (in thousands):

	Year ended December 31,		
	2022	2021	2020
Service charges on deposit accounts	\$ 5,747	\$ 4,755	\$ 3,728
Global Payments Group revenue	19,341	16,445	8,464
Other service charges and fees	1,763	1,950	1,477
Total	\$ 26,851	\$ 23,150	\$ 13,669

A description of the Company's revenue streams accounted for under the accounting guidance follows:

Service charges on deposit accounts

The Company offers business and personal retail products and services, which include, but are not limited to, online banking, mobile banking, ACH, and remote deposit capture. A standard deposit contract exists between the Company and all deposit customers. The Company earns fees from its deposit customers for transaction-based services (such as ATM use fees, stop payment charges, statement rendering, and ACH fees), account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Global payment group revenue

The Company offers corporate cash management and retail banking services and, through its global payments business, provides BaaS to its fintech partners. The Company earns initial set-up fees for these programs as well as fees for transactions processed. The Company receives transaction data at the end of each month for services rendered, at which time revenue is recognized. Additionally, Service charges specific to Global payment customers' deposits are recognized within Global payment group revenue.

Other service charges

The primary component of other service charges relates to letter of credit fees and FX conversion fees. The Company outsources FX conversion for foreign currency transactions to correspondent banks. The Company earns a portion of an FX conversion fee that the customer charges to process an FX conversion transaction. Revenue is recognized at the end of the month once the customer has remitted the transaction information to the Company.

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NOTE 21 – DERIVATIVES

In 2020, the Company entered into an interest rate cap derivative contract (“interest rate cap” or “contract”) as a part of its asset liability management strategy to help manage its interest rate risk position. The interest rate cap had a notional amount of \$300.0 million and a contractual maturity of March 1, 2025. The notional amount of the interest rate cap does not represent the amount exchanged by the parties. The amount exchanged was determined by reference to the notional amount and the other terms of the contract. The interest rate subject to the cap was 30-day LIBOR.

The interest rate cap was designated as a cash flow hedge of certain deposit liabilities of the Company. The hedge was determined to be highly effective during 2022 until it was terminated in the third quarter of 2022. The unrecognized value of \$12.7 million at termination will be released from Accumulated Other Comprehensive Income and recorded as a credit to Licensing fees expense through March 2025.

The following tables reflect the derivatives recorded on the balance sheet (in thousands):

	Notional Amount	Fair Value
<u>At December 31, 2022</u>		
Derivatives designated as hedges:		
Interest rate caps related to customer deposits	\$ —	\$ —
Total included in Other Assets	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>
<u>At December 31, 2021</u>		
Derivatives designated as hedges:		
Interest rate caps related to customer deposits	\$ 300,000	\$ 3,385
Total included in Other Assets	<u><u>\$ 300,000</u></u>	<u><u>\$ 3,385</u></u>

The effect of cash flow hedge accounting on accumulated other comprehensive income is as follows (in thousands):

	Year ended December 31,		
	2022	2021	2020
Interest rate caps related to customer deposits			
Amount of gain (loss) recognized in OCI, net of tax	\$ 8,131	\$ 2,059	\$ (1,311)
Amount of gain (loss) reclassified from OCI into income	\$ 1,949	\$ —	\$ —
Location of gain (loss) reclassified from OCI into income	Licensing fees	N/A	N/A

NOTE 22 – SUBSEQUENT EVENTS

None.

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 23—PARENT COMPANY FINANCIAL INFORMATION**

Condensed financial information for the Company (parent company only) is as follows (in thousands):

Condensed Statements of Financial Condition

	<u>At December 31,</u>	
	<u>2022</u>	<u>2021</u>
Assets		
Cash and due from banks	\$ 9,476	\$ 32,328
Loans, net of allowance for loan losses	776	776
Investments	620	620
Investment in subsidiary bank, at equity	584,522	569,327
Other assets	1,520	6
Total assets	<u>596,914</u>	<u>603,057</u>
Liabilities and Stockholders' Equity		
Trust preferred securities	20,620	20,620
Subordinated debt payable, net of issuance costs	—	24,712
Other liabilities	397	736
Total liabilities	<u>21,017</u>	<u>46,068</u>
Stockholders' Equity		
Preferred stock	—	—
Common stock	109	109
Surplus	389,276	382,999
Retained earnings	240,810	181,385
Accumulated other comprehensive income (loss), net of tax	(54,298)	(7,504)
Total equity	<u>575,897</u>	<u>556,989</u>
Total liabilities and stockholders' equity	<u>\$ 596,914</u>	<u>\$ 603,057</u>

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Condensed Statements of Operations

	Year Ended December 31,		
	2022	2021	2020
Income			
Loans	\$ 9	\$ 14	\$ 17
Securities and money market funds	25	13	18
Total interest income	<u>34</u>	<u>27</u>	<u>35</u>
Interest expense			
Trust preferred securities	823	438	590
Subordinated debt	<u>605</u>	<u>1,618</u>	<u>1,618</u>
Total interest expense	<u>1,428</u>	<u>2,056</u>	<u>2,208</u>
Net interest expense	<u>(1,394)</u>	<u>(2,029)</u>	<u>(2,173)</u>
Provision for loan losses			
Net interest expense after provision for loan losses	<u>(1,394)</u>	<u>(2,029)</u>	<u>(2,173)</u>
Other expense			
Loss before undistributed earnings of subsidiary bank	<u>2,767</u>	<u>1,288</u>	<u>2,338</u>
Equity in undistributed earnings of subsidiary bank	<u>(4,161)</u>	<u>(3,317)</u>	<u>(4,511)</u>
Income before income tax benefit	<u>62,357</u>	<u>62,798</u>	<u>42,844</u>
Income tax benefit	<u>58,196</u>	<u>59,481</u>	<u>38,333</u>
Net income	<u>1,229</u>	<u>1,074</u>	<u>1,133</u>
Comprehensive income	<u><u>\$ 59,425</u></u>	<u><u>\$ 60,555</u></u>	<u><u>\$ 39,466</u></u>
	<u><u>\$ 12,631</u></u>	<u><u>\$ 52,078</u></u>	<u><u>\$ 39,232</u></u>

METROPOLITAN BANK HOLDING CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statement of Cash Flows

	Year Ended December 31,		
	2022	2021	2020
Cash Flows From Operating Activities			
Net income	\$ 59,425	\$ 60,555	\$ 39,466
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed earnings of subsidiary bank	(62,357)	(58,798)	(42,844)
Cash dividend from subsidiary bank	—	4,000	—
Other operating adjustments	6,351	(746)	2,438
Net cash provided by (used in) operating activities	<u>3,419</u>	<u>5,011</u>	<u>(940)</u>
Cash Flows From Investing Activities			
Investments in subsidiary bank	—	(132,000)	—
Net cash provided by (used in) investing activities	<u>—</u>	<u>(132,000)</u>	<u>—</u>
Cash Flows From Financing Activities			
Redemption of common stock for tax withholdings for restricted stock vesting	(1,559)	(3,385)	(881)
Redemption of subordinated notes	(24,712)	—	—
Proceeds from issuance of common stock, net	—	162,687	—
Net cash provided by (used in) financing activities	<u>(26,271)</u>	<u>159,302</u>	<u>(881)</u>
Increase (decrease) in cash and cash equivalents	(22,852)	32,313	(1,821)
Cash and cash equivalents, beginning of year	32,328	15	1,836
Cash and cash equivalents, end of year	<u>\$ 9,476</u>	<u>\$ 32,328</u>	<u>\$ 15</u>

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UNAUDITED QUARTERLY FINANCIAL DATA

Selected Consolidated Quarterly Financial Data (dollars, except per share amounts, in thousands)

	2022 Quarter Ended			
	December 31	September 30	June 30	March 31
Interest income	\$ 80,554	\$ 70,057	\$ 59,158	\$ 50,970
Interest expense	16,655	6,732	3,856	4,338
Net interest income	63,899	63,325	55,302	46,632
Provision for loan losses	2,309	2,007	2,400	3,400
Net interest income after provision for loan losses	61,590	61,318	52,902	43,232
Non-interest income	6,350	5,818	6,998	7,427
Non-interest expense	66,659	31,190	26,269	24,619
Income before income taxes	1,281	35,946	33,631	26,040
Income tax expense	9,021	10,991	10,442	7,019
Net income (loss)	\$ (7,740)	\$ 24,955	\$ 23,189	\$ 19,021
Basic earnings (loss) per common share	\$ (0.71)	\$ 2.28	\$ 2.12	\$ 1.74
Diluted earnings (loss) per common share	\$ (0.71)	\$ 2.23	\$ 2.07	\$ 1.69

	2021 Quarter Ended			
	December 31	September 30	June 30	March 31
Interest income	\$ 49,110	\$ 45,018	\$ 41,050	\$ 38,106
Interest expense	4,300	4,226	4,077	3,680
Net interest income	44,810	40,792	36,973	34,426
Provision for loan losses	501	490	1,875	950
Net interest income after provision for loan losses	44,309	40,302	35,098	33,476
Non-interest income	7,057	5,891	6,156	4,593
Non-interest expense	23,314	21,984	21,689	20,325
Income before income taxes	28,052	24,209	19,565	17,744
Income tax expense	9,165	7,994	6,229	5,627
Net income (loss)	\$ 18,887	\$ 16,215	\$ 13,336	\$ 12,117
Basic earnings (loss) per common share	\$ 1.74	\$ 1.82	\$ 1.59	\$ 1.46
Diluted earnings (loss) per common share	\$ 1.69	\$ 1.77	\$ 1.55	\$ 1.43

RESTRICTED STOCK UNIT AWARD AGREEMENT

Granted by

METROPOLITAN BANK HOLDING CORP.

under the

**METROPOLITAN BANK HOLDING CORP.
2022 EQUITY INCENTIVE PLAN**

This Restricted Stock Unit Award Agreement (“**Agreement**”) is and shall be subject in every respect to the provisions of the 2022 Equity Incentive Plan (the “**Plan**”) of Metropolitan Bank Holding Corp. (the “**Company**”) which are incorporated herein by reference and made a part hereof, subject to the provisions of this Agreement. A copy of the Plan has been provided to each person (“**Grantee**”) granted a Restricted Stock Unit Award (“**Restricted Stock Unit Award**”) pursuant to the Plan. The Grantee of this Restricted Stock Unit Award hereby accepts this Restricted Stock Unit Award, subject to all the terms and provisions of the Plan and this Agreement, and agrees that all decisions under and interpretations of the Plan and this Agreement by the Committee appointed to administer the Plan (“**Committee**”) or the Board of Directors shall be final, binding and conclusive upon the Grantee and the Grantee’s heirs, legal representatives, successors and permitted assigns. Except where the context otherwise requires, the term “**Company**” shall include the parent and all present and future subsidiaries of the Company as defined in Section 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended from time to time (the “**Code**”). Capitalized terms used herein but not defined shall have the same meaning as in the Plan.

1. **Name of Grantee:** _____
2. **Date of Grant:** _____
3. **Total number of Restricted Stock Units covered by the Restricted Stock Unit Award:** _____
4. **Vesting Schedule.** Except as otherwise provided in this Agreement, this Restricted Stock Unit Award will become one-hundred percent (100%) cliff vested on [_____] (and 0% vested before that date).
5. **Grant of Restricted Stock Unit Award.**

The Restricted Stock Unit Award is an Award denominated in shares of Stock, except that no shares of Stock are actually awarded to the Grantee on the Date of Grant. The Restricted Stock Units will be credited to the Grantee’s account, subject to the terms of the Plan and this Agreement. The Committee shall impose any conditions or restrictions on any Restricted Stock Unit Awards as it may deem advisable, including purchase price, time-based restrictions, or holding requirements or sale restrictions. A Restricted Stock Unit Award will be settled in shares of the Company’s Stock.

6. **Terms and Conditions.**

- 6.1 **Dividend Equivalent Rights.** Subject to the restrictions, limitations and conditions described in the Plan and/or this Agreement, Restricted Stock Units will earn dividend equivalent rights during the vesting period at the rate of dividends per share paid by the Company on the Company's Stock. Dividend equivalent rights will be accrued but not paid until the Restricted Stock Units are earned, vested and issued. Dividend equivalent rights will be forfeited if the Restricted Stock Units are forfeited.
- 6.2 **No Voting Rights.** The Grantee shall not be entitled to vote the Restricted Stock Units granted hereunder.

7. **Accelerated Vesting on Change in Control, Death or Disability.**

- 7.1 In the event of the Grantee's Involuntary Termination at or within 24 months following a Change in Control (including a resignation for "Good Reason"), all Restricted Stock Unit Awards held by the Grantee will become fully vested. In addition, in the event a successor entity does not assume outstanding Awards granted under the Plan following a Change in Control, such Awards will vest in full.
- 7.2 In the event of the Grantee's death or Disability during the vesting period, the Grantee (or the Grantee's beneficiary, as applicable) shall become fully vested in all outstanding Restricted Stock Unit Awards subject to this Agreement.
- 7.3 In the event that a Grantee: (i) fails to seek re-election to the Board of Directors, or (ii) seeks re-election to the Board of Directors and is not re-elected during the vesting period, all Restricted Stock Unit Awards granted to a Grantee that have not vested will expire and be forfeited as of the date of the applicable Company stockholder meeting.
- 7.4 Other than as set forth in Sections 7.1, 7.2 and 7.3 above, no Restricted Stock Unit Award will vest in less than the one year from the date of grant.

8. **Effect of Other Terminations of Service on Award.**

- 8.1 **Termination by the Company for Cause.** In the event Grantee's service with the Company is terminated by the Company for "Cause" all unvested Restricted Stock Units shall be forfeited by Grantee as of the date of Grantee's termination (the "Termination Date").
- 8.2 **Termination by Grantee.** If Grantee terminates Service prior to the last vesting date set forth in Section 4 above for any reason not set forth in this Section 8 or Section 7 above, all remaining Restricted Stock Units will be forfeited.

9. Adjustment Provisions.

This Restricted Stock Unit Award, including the number of shares subject to the Restricted Stock Unit Award will be adjusted upon the occurrence of the events specified in, and in accordance with the provisions of, Section 3.4(a) of the Plan.

10. Miscellaneous.

- 10.1 This Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Grantee.
- 10.2 This Restricted Stock Unit Award shall be governed by and construed in accordance with the laws of the State of New York, without regard to its principles of conflicts of laws, except as superseded by federal law.
- 10.3 This Restricted Stock Unit Award is subject to all laws, regulations and orders of any governmental authority which may be applicable thereto and, notwithstanding any of the provisions hereof, the Company will not be obligated to issue any shares of Common Stock hereunder if the issuance of such shares would constitute a violation of any such law, regulation or order or any provision thereof.
- 10.4 The granting of this Restricted Stock Unit Award does not confer upon the Grantee any right to be retained in the employ of the Company or any subsidiary.

11. Section 409A of the Code.

It is the intention of the parties that the provisions of this Agreement comply with the requirements of Section 409A of the Code and Treasury Regulations thereunder, to the extent applicable.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be executed in its name and on its behalf as of the date of grant of this Restricted Stock Unit Award set forth above.

METROPOLITAN BANK HOLDING CORP.

By: _____

GRANTEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing Restricted Stock Unit Award and agrees to the terms and conditions hereof, including the terms and provisions of the 2022 Equity Incentive Plan. The undersigned hereby acknowledges receipt of a copy of the Company's 2022 Equity Incentive Plan and related Prospectus.

GRANTEE

RESTRICTED STOCK UNIT AWARD AGREEMENT

Granted by

METROPOLITAN BANK HOLDING CORP.

under the

**METROPOLITAN BANK HOLDING CORP.
2022 EQUITY INCENTIVE PLAN**

This Restricted Stock Unit Award Agreement (“**Agreement**”) is and shall be subject in every respect to the provisions of the 2022 Equity Incentive Plan (the “**Plan**”) of Metropolitan Bank Holding Corp. (the “**Company**”) which are incorporated herein by reference and made a part hereof, subject to the provisions of this Agreement. A copy of the Plan has been provided to each person (“**Grantee**”) granted a Restricted Stock Unit Award (“**Restricted Stock Unit Award**”) pursuant to the Plan. The Grantee of this Restricted Stock Unit Award hereby accepts this Restricted Stock Unit Award, subject to all the terms and provisions of the Plan and this Agreement, and agrees that all decisions under and interpretations of the Plan and this Agreement by the Committee appointed to administer the Plan (“**Committee**”) or the Board of Directors shall be final, binding and conclusive upon the Grantee and the Grantee’s heirs, legal representatives, successors and permitted assigns. Except where the context otherwise requires, the term “Company” shall include the parent and all present and future subsidiaries of the Company as defined in Section 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended from time to time (the “**Code**”). Capitalized terms used herein but not defined shall have the same meaning as in the Plan.

1. **Name of Grantee:** _____
2. **Date of Grant:** _____
3. **Total number of Restricted Stock Units covered by the Restricted Stock Unit Award:**

4. **Vesting Schedule.** Except as otherwise provided in this Agreement, this Restricted Stock Unit Award first becomes earned in accordance with the vesting schedule specified herein.

Date	Vested Portion of Award ¹	Number of Shares Vesting
------	--------------------------------------	--------------------------

5. Grant of Restricted Stock Unit Award.

¹ To the extent that the number of Restricted Stock Units are not equally divisible into the number of vesting periods set forth above, the number of Restricted Stock Units vesting in a period will be rounded down to the nearest whole number.

The Restricted Stock Unit Award is an Award denominated in shares of Stock, except that no shares of Stock are actually awarded to the Grantee on the Date of Grant. The Restricted Stock Units will be credited to the Grantee's account, subject to the terms of the Plan and this Agreement. The Committee shall impose any conditions or restrictions on any Restricted Stock Unit Awards as it may deem advisable, including purchase price, time-based restrictions, or holding requirements or sale restrictions. A Restricted Stock Unit Award will be settled in shares of the Company's Stock.

6. Terms and Conditions.

- 6.1 **Dividend Equivalent Rights.** Subject to the restrictions, limitations and conditions described in the Plan and/or this Agreement, Restricted Stock Units will earn dividend equivalent rights during the vesting period at the rate of dividends per share paid by the Company on the Company's Stock. Dividend equivalent rights will be accrued but not paid until the Restricted Stock Units are earned, vested and issued. Dividend equivalent rights will be forfeited if the Restricted Stock Units are forfeited.
- 6.2 **No Voting Rights.** The Grantee shall not be entitled to vote the Restricted Stock Units granted hereunder.

7. Accelerated Vesting on Change in Control, Death or Disability.

- 7.1 In the event of the Grantee's Involuntary Termination at or within 24 months following a Change in Control (including a resignation for "Good Reason"), all Restricted Stock Unit Awards held by the Grantee will become fully vested. In addition, in the event a successor entity does not assume outstanding Awards granted under the Plan following a Change in Control, such Awards will vest in full.
- 7.2 In the event of the Grantee's death or Disability during the vesting period, the Grantee (or the Grantee's beneficiary, as applicable) shall become fully vested in all outstanding Restricted Stock Unit Awards subject to this Agreement.
- 7.3 Other than as set forth in Sections 7.1 and 7.2 above, no Restricted Stock Unit Award will vest in less than the one year from the date of grant.

8. Effect of Other Terminations of Service on Award.

- 8.1 **Termination by the Company for Cause.** In the event Grantee's employment with the Company is terminated by the Company for "Cause" all unvested Restricted Stock Units shall be forfeited by Grantee as of the date of Grantee's termination (the "Termination Date").

8.2 **Termination by the Company without Cause.** In the event Grantee's employment is terminated by the Company without Cause (other than a termination occurring within the one-year period after the date of grant), all Restricted Stocks Units shall immediately become vested as of the Termination Date.

8.3 **Termination by Grantee.** If Grantee terminates Service prior to the last vesting date set forth in Section 4 above for any reason not set forth in this Section 8 or Section 7 above, all remaining Restricted Stock Units will be forfeited.

9. Adjustment Provisions.

This Restricted Stock Unit Award, including the number of shares subject to the Restricted Stock Unit Award will be adjusted upon the occurrence of the events specified in, and in accordance with the provisions of, Section 3.4(a) of the Plan.

10. Miscellaneous.

10.1 This Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Grantee.

10.2 Subject to written consent by the Committee, the Grantee shall have the right to direct the Company to collect, at the Grantee's highest marginal tax rate, federal, state and local income taxes and the employee portion of FICA taxes (Social Security and Medicare) with respect to any Restricted Stock Unit Award in accordance with Section 7.8 of the Plan. Notwithstanding the foregoing, the Company shall have the right to require the Grantee to pay the Company the amount of any tax that the Company is required to withhold with respect to such vesting of the Restricted Stock Unit Award or sell without notice, a sufficient number of shares of Stock to cover the minimum amount required to be withheld under applicable law.

10.3 This Restricted Stock Unit Award shall be governed by and construed in accordance with the laws of the State of New York, without regard to its principles of conflicts of laws, except as superseded by federal law.

10.4 This Restricted Stock Unit Award is subject to all laws, regulations and orders of any governmental authority which may be applicable thereto and, notwithstanding any of the provisions hereof, the Company will not be obligated to issue any shares of Common Stock hereunder if the issuance of such shares would constitute a violation of any such law, regulation or order or any provision thereof.

10.5 The granting of this Restricted Stock Unit Award does not confer upon the Grantee any right to be retained in the employ of the Company or any subsidiary.

11. Collection of Withholding Taxes.

The Company shall collect the employee portion of the FICA taxes (Social Security and Medicare) with respect to the Restricted Stock Unit Awards (including additional amounts paid

due to Dividend Equivalents) at the time the Restricted Stock Unit Awards vest hereunder. The FICA taxes shall be based on the fair market value of the Common Stock underlying the Restricted Stock Unit Awards on the Vesting Date. Unless the Grantee delivers a separate check payable to the Company in the amount of the FICA taxes required to be withheld from the Grantee, the Company shall withhold those taxes from the Grantee's wages.

The Company shall collect the federal, state and local income taxes required to be withheld with respect to the Common Stock issued in accordance with the terms of the Plan; and the withholding shall not exceed the amount necessary to satisfy the withholding requirements. Notwithstanding anything herein to the contrary, no withholding taxes shall be collected from Non-Employee awards.

12. Section 409A of the Code.

It is the intention of the parties that the provisions of this Agreement comply with the requirements of Section 409A of the Code and Treasury Regulations thereunder, to the extent applicable.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be executed in its name and on its behalf as of the date of grant of this Restricted Stock Unit Award set forth above.

METROPOLITAN BANK HOLDING CORP.

By: _____

GRANTEE'S ACCEPTANCE

The undersigned hereby accepts the foregoing Restricted Stock Unit Award and agrees to the terms and conditions hereof, including the terms and provisions of the 2022 Equity Incentive Plan. The undersigned hereby acknowledges receipt of a copy of the Company's 2022 Equity Incentive Plan and related Prospectus.

GRANTEE

PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD AGREEMENT

Granted by

METROPOLITAN BANK HOLDING CORP.

under the

**METROPOLITAN BANK HOLDING CORP.
2022 EQUITY INCENTIVE PLAN**

This Performance-Based Restricted Stock Unit Award Agreement (“**Agreement**”) is and shall be subject in every respect to the provisions of the 2022 Equity Incentive Plan (the “**Plan**”) of Metropolitan Bank Holding Corp. (the “**Company**”) which are incorporated herein by reference and made a part hereof, unless superseded by the provisions of this Agreement, including **Exhibit A**. A copy of the Plan has been provided to each Participant granted a performance-based restricted stock unit award (the “**Performance Award**”) pursuant to the Plan. The holder of this Performance Award (the “**Participant**”) hereby accepts this Performance Award, subject to all the terms and provisions of the Plan, this Agreement and Exhibit A, and agrees that all decisions under and interpretations of the Plan and this Agreement by the Compensation Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) or the Board shall be final, binding and conclusive upon the Participant and the Participant’s heirs, legal representatives, successors and permitted assigns. Except where the context otherwise requires, the term “Company” shall include the parent and all present and future subsidiaries of the Company as defined in Section 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended from time to time (the “**Code**”). Capitalized terms used herein but not defined shall have the same meaning as in the Plan.

1. **Name of Participant:** _____
2. **Date of Grant:**
3. **Total number of Performance Awards covered by the Award:** _____

The total number of Performance Awards to be issued may decrease depending on whether the performance measures, as set forth in **Exhibit A** attached hereto (the “**Performance Measures**”), are satisfied.

4. **Vesting Schedule; Issuance of Stock.**

The number of Performance Awards that will vest, if any, shall be determined as each applicable vesting date, as set forth in **Exhibit A** attached hereto. That number will be determined based on the level of attainment of Performance Measures for each fiscal year in the Performance Period, as follows:

- 4.1 Performance Period and Annual Vesting. The “Performance Period” for this Award is January 1, 20[*] through December 31, 20[*] (a “**Fiscal Year**”). During the month of February immediately following the Fiscal Year, the Committee shall meet to evaluate the Company and Participant’s performance for such Fiscal Year with respect to the Performance Measures set forth on **Exhibit A** hereto. The total number of Performance Awards that vest will depend on whether and to what extent the Performance Measures have been satisfied. The Committee shall thereafter report its determination to the Board and to the Participant.
- 4.2 Vesting Schedule. Except as otherwise provided in this Agreement, all or a portion of this Performance Award shall vest in accordance with the vesting schedule specified in **Exhibit A** attached to this Agreement.
- 4.3 Acceleration of Vesting. In addition to Section 4.2 of this Agreement, vesting will automatically accelerate upon the occurrence of an event set forth in Section 7 of this Agreement, in accordance with the terms set forth therein.
- 4.4 Issuance of Stock. The number of Performance Awards to vest and be issued as Stock will be determined during the month of February immediately following the Fiscal Year. All vested Performance Awards will convert to Stock and be issued to the Participant on or after February 28, 20[*] but not later than March 31, 20[*] (the “**Settlement Date**”).
- 4.5 No Fractional Shares. In no event shall any fractional shares be issued. Accordingly, the total number of shares of Stock to be issued pursuant to the Performance Award shall, to the extent necessary, be rounded down to the next whole share in order to avoid the issuance of a fractional share. The settlement of all Performance Awards that vest under the Award shall be made solely in shares of Stock.
- 4.6 Cash Settlement. Notwithstanding anything in this Agreement to the contrary, in the sole discretion of the Committee, vested Performance Awards may be settled in cash based on the Fair Market Value of a share of Stock multiplied by the number of Performance Awards being settled.

5. **Performance Awards.**

Each Performance Award represents the right to receive one share of Stock on the date determined in accordance with this Agreement and the Plan.

6. **Dividends and Voting Rights.**

- 6.1 Dividend Equivalent Rights. Subject to the restrictions, limitations and conditions described in the Plan and/or this Agreement, Performance Awards will earn dividend equivalent rights during the vesting period at the rate of dividends per share paid by the Company on the Company’s Stock. Dividend equivalent rights will be accrued but not paid until the Performance Awards are earned, vested and

issued. Dividend equivalent rights will be forfeited if the Performance Awards are forfeited.

6.2 No Voting Rights. The Participant shall have no voting right with respect to any Performance Award granted hereunder. Following the vesting of and conversion of Performance Awards to Stock, the Participant shall be entitled to vote such Stock on the same basis as other stockholders.

7. **Accelerated Vesting on Change in Control, Death or Disability.**

7.1 In the event of a Change in Control, all of the non-vested Performance Awards will become fully earned and vested immediately at the higher of the actual level of Performance Measures that have been achieved or at “Target” (Target means [*] Performance Awards) and the Settlement Date of all Performance Awards shall be the date of the Change in Control.

7.2 In the event of the Participant’s death or Disability during a Fiscal Year in the Performance Period or after the end of a Fiscal Year in the Performance Period and prior to the Committee’s determination of the achievement of the Performance Measures for such Fiscal Year, the Participant (or the Participant’s beneficiary, as applicable) shall be entitled to the number of shares for such Fiscal Year in which the Participant is entitled based on achievement of the Performance Measures during the period from the beginning of such Fiscal Year to the last day of the quarter ending prior to the Participant’s death or Disability upon such determination by the Committee in accordance with Section 4.1 of this Agreement. The determination should be made no later than 30 days after the Participant’s death or Disability and if such determination is not made within 30 days after the Participant’s death or Disability all non-vested Performance Awards will become fully earned and vested immediately at “Target.” The Settlement Date of all Performance Awards shall be no later than 60 days after the Participant’s death or Disability.

8. **Effect of Other Terminations of Service on Award.**

8.1 Termination by the Company for Cause. In the event the Participant’s employment with the Company is terminated by the Company for Cause, all non-vested Performance Awards will be forfeited by Participant as of the date of Participant’s termination (the “**Termination Date**”).

8.2 Termination by the Company without Cause or Participant’s Termination for Good Reason. In the event Participant’s employment is terminated by the Company without Cause or the Participant terminates employment for Good Reason (as defined in [*]), all Performance Awards shall immediately become vested as of the Termination Date and the Settlement Date shall be no later than 60 days after the Date of Termination.

8.3 **Termination by Participant.** If Participant terminates Service prior to the vesting date for any reason not set forth in this Section 8 or Section 7 above, all non-vested Performance Awards will be forfeited and all vested Performance Awards will be paid no later than 60 days after the Date of Termination.

9. **Adjustment Provisions.**

This Performance Award shall be adjusted upon the occurrence of the events specified in, and in accordance with the provisions of, Section 3.4 of the Plan and as otherwise provided in the Plan.

10. **Miscellaneous.**

- 10.1 No Performance Award shall confer upon the Participant any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights and the Stock is issued to the Participant.
- 10.2 This Agreement may not be amended or otherwise modified unless evidenced in writing and signed by the Company and the Participant.
- 10.3 Prior to actual receipt of the awarded shares of Stock that become issuable hereunder, the Participant may not transfer any interest in the Performance Award or the underlying shares of Stock to be awarded hereunder. Any awarded shares underlying Performance Awards that vest hereunder but which otherwise remain unissued at the time of the Participant's death may be transferred pursuant to the provisions of the Participant's will or the laws of inheritance or applicable beneficiary designation.
- 10.4 This Performance Award shall be governed by and construed in accordance with the laws of the state of New York, without regard to its principles of conflicts of laws, except as superseded by federal law.
- 10.5 This Performance Award is subject to all laws, regulations and orders of any governmental authority that may be applicable thereto and, notwithstanding any of the provisions hereof, the Company will not be obligated to issue any shares of Stock hereunder if the issuance of such shares would constitute a violation of any such law, regulation or order or any provision thereof.
- 10.6 The granting of this Performance Award does not confer upon the Participant any right to be retained in the employ of the Company or any subsidiary.
- 10.7 Notwithstanding any provision to the contrary and solely to the extent necessary to comply with Section 409A of the Code, if the Participant is a "specified employee" within the meaning of Section 409A of the Code and any payment or distribution of shares of Stock with respect to the Performance Awards are payable due to the Participant's "separation from service" within the meaning of Section 409A of the Code (hereinafter, referred to as a "**Separation from Service**"), no payment or distribution of shares of Stock with respect to the Performance Awards shall be

made within with the first six months following the Participant's Separation from Service. Rather, such payment or distribution of shares of Stock shall be made on the first day of the seventh month following the Participant's Separation from Service.

11. Collection of Withholding Taxes.

The Company shall collect the employee portion of the FICA taxes (Social Security and Medicare) with respect to the Performance Awards at the time those Performance Awards vest hereunder. The FICA taxes shall be based on the fair market value of the Stock underlying the Performance Awards on the vesting date. Unless the Participant delivers a separate check payable to the Company in the amount of the FICA taxes required to be withheld from the Participant, the Company shall withhold those taxes from the Participant's wages.

The Company shall collect the federal, state and local income taxes required to be withheld with respect to the Stock issued in accordance with the terms of the Plan; and the withholding shall not exceed the amount necessary to satisfy the withholding requirements.

12. Section 409A of the Code.

It is the intention of the parties that the provisions of this Agreement comply with the requirements of Section 409A of the Code and Treasury Regulations thereunder, to the extent applicable.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be executed in its name and on its behalf as of the date of grant of this Performance Award set forth above.

METROPOLITAN BANK HOLDING CORP.

By: _____

PARTICIPANT'S ACCEPTANCE

The undersigned hereby accepts the foregoing Performance Award and agrees to the terms and conditions hereof, including the terms and provisions of the 2022 Equity Incentive Plan. The undersigned hereby acknowledges receipt of a copy of the Company's 2022 Equity Incentive Plan and related Prospectus.

PARTICIPANT

Metropolitan National Bank

99 Park Avenue
New York, NY 10016

212 659-0600

facsimile 212 659-0610
www.MetropolitanBankny.com



September 21, 2012

Ms. Laura E. Capra
105 Donato Circle
Scotch Plains, NJ 07076

Re: CHANGE OF CONTROL

If your position with Metropolitan National Bank (the “Bank”) is subject to a “Qualifying Termination” (as defined below) within 12 months following a “Change of Control” (as defined below) for reasons other than for “Good Cause” (as defined below) you will be paid an amount equal to your then annual base cash compensation.

A “Qualifying Termination” shall include: (1) your employment being involuntarily terminated without Good Cause; (2) your position being eliminated; or (3) your voluntary resignation with Good Reason meaning a reduction in your base salary or a reduction in your total compensation package. A Qualifying Termination shall *not* include termination based on your death, or your disability, or retirement pursuant to any plan or policy of the Bank or the entity resulting from the Change of Control.

A “Change of Control” means any of the following transactions: (i) a sale of all or substantially all of the assets of the bank; (ii) any change in the ownership capital stock of Metropolitan Bank Holding Corp. (“MHBC”) that provides any person (directly or indirectly through its affiliates) the right as the holder of such capital stock to elect a majority of the members of the board of directors of MHBC; provided, that a Change of Control Transaction shall not include any of the following: (A) any transaction that occurs on or after the effective date of a registration statement under the Securities Act of 1933, as amended, (B) any issuance of shares of capital stock that is not to one investor or group of affiliated investors to provide a change of control of the bank, or (C) any transaction that is not authorized or recommended to the voting shareholders by the Board of Directors of the Bank or MHBC.

“Good Cause” shall mean a termination for violation of law, willful misconduct, failure to promptly and satisfactorily perform the duties as an officer of the Bank after notice of unsatisfactory performance, failure to comply with the employee policies and procedures, or the commission by you of any act that would disqualify you to serve as a senior officer of a depository institutions under federal banking laws or regulations.

The payment of any additional cash compensation under the terms of this letter is contingent upon you: (i) executing and delivering a General Release, in form and substance reasonably required by the Bank, and (ii) you complying with the Post Separation Covenants described below.

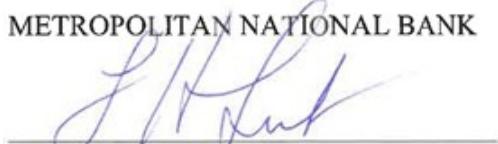


Post Separation Covenants. You agree that after any separation of your employment you will: (i) for a period of 30 days not solicit, hire, or retain any employee or consultant of the Bank, or persuade or entice any such employee or consultant to terminate or lessen the extent of his, her, or its relationship with the Bank; or (ii) not intentionally interfere with, disrupt, or damage the relationships of the Bank or its subsidiaries with its clients, customers, distributors, suppliers, or investors; or (iii) not make any disparaging remarks about the bank or its officers, directors, or employees.

Your employment with the Bank will remain "At Will". This letter does not change your employment status, guaranty any term of employment, or modify your obligations as an officer of the Bank under our employment policies and New York and federal law.

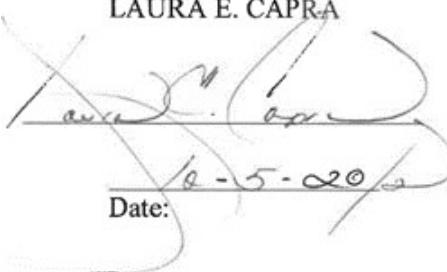
Please indicate your acceptance of the terms of this letter by signing and returning an original copy to Human Resources.

METROPOLITAN NATIONAL BANK


Lawrence H. List

1st Vice President - Human Resources Director

LAURA E. CAPRA


Date: 6-5-20

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-221644 and 333-233465 on Form S-8, and Registration Statement No. 333-260532 on Form S-3, of Metropolitan Bank Holding Corp. and Subsidiary of our report dated February 28, 2023, relating to the consolidated financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

New York, New York
February 28, 2023

CERTIFICATION

I, Mark R. DeFazio, certify that:

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

Date: February 28, 2023

/s/ Mark R. DeFazio

Mark R. DeFazio

President and Chief Executive Officer

CERTIFICATION

I, Gregory A. Sigrist, certify that:

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

Date: February 28, 2023

/s/ Gregory A. Sigrist

Gregory A. Sigrist

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Mark R. DeFazio, President and Chief Executive Officer and Gregory A. Sigrist, Executive Vice President and Chief Financial Officer of Metropolitan Bank Holding Corp. (the “Company”) each certify in their capacity as an officer of the Company that they have reviewed the annual report of the Company on Form 10-K for the fiscal year ended December 31, 2022, and that to the best of their knowledge:

- (1) the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

Date: February 28, 2023

/s/ Mark R. DeFazio

Mark R. DeFazio
President and Chief Executive Officer

Date: February 28, 2023

/s/ Gregory A. Sigrist

Gregory A. Sigrist
Executive Vice President and Chief Financial Officer
