

PYRAMAX BANK
WHISTLEBLOWER POLICY

Initially Approved by the Board on May 21, 2004
Revision Approved by the Board: January 19, 2018

I. SCOPE

This policy applies to all PYRAMAX BANK employees, including part time, temporary and contract employees.

II. PURPOSE

PYRAMAX BANK is committed to the highest possible standards of ethical, moral and legal business conduct. In line with this commitment and PYRAMAX BANK's commitment to open communication, this policy aims to provide an avenue for employees to raise concerns and reassurance that they will be protected from reprisal or victimization for whistle blowing in good faith.

III. POLICY:

The Whistleblower Policy is intended to cover serious concerns that could have a large impact on PYRAMAX BANK, such as actions that:

- A. may lead to incorrect financial reporting;
- B. is unlawful;
- C. are not in line with company policy, including the Code of Business Conduct; or
- D. otherwise amounts to serious improper conduct.

IV. SAFEGUARDS

- A. Any employee (or any person acting pursuant to the request of the employee) who provided information to an appropriate reporting officer as defined herein, caused information to be provided, or otherwise assisted in an investigation into any of the acts defined in Paragraph B. hereof shall be protected from:
 - Discharge.
 - Other job actions with respect to compensation, terms, conditions, or privileges of employment.
 - Retaliation. Protection against retaliation does not include immunity for any personal wrongdoing that is alleged and investigated.

The protections of this section shall not apply to an employee who:

1. Deliberately causes or participates in the alleged improper activity.
2. Knowingly or recklessly provides substantially false information. An employee who intentionally files a false report of wrongdoing will be subject to discipline up to and including termination.

- B. Fraud is the intentional misrepresentation of a material fact or a deception, to secure unfair or unlawful gain at the expense of another. Either insiders or outsiders, or both acting in concert, can perpetrate fraud on a financial institution.

The term “insider abuse” refers to a wide range of activities by officers, directors, employees, major shareholders, agents, and other controlling persons in financial institutions. The perpetrators intend to benefit themselves to their related interests. Their actions include, but are not limited to:

1. A possible violation of any state or federal law or regulation;
2. Gross mismanagement, a gross waste of funds, or a substantial and specific danger to public health or safety;
3. An act or acts that may lead to incorrect financial reporting;
4. An act or acts that violate the Bank policies;
5. Unsound lending practices, such as inadequate collateral and poor loan documentation;
6. Excessive concentrations of credit to certain industries or groups of borrowers;
7. Unsound or excessive loans to insiders or their related interest or business associates;
8. Violations of civil statutes or regulations, such as legal lending limits or loans to one borrower; or
9. Criminal violations of law and statute, such as fraud, misapplication of bank funds, or embezzlement.

Insiders often commit crimes using subordinates who do not question their instructions. In some instances, however, the subordinates may be astute enough to know that what the insiders instructed them to do is questionable or wrong.

The following is a list of examples of unsafe, unsound, and sometimes fraudulent activities:

- Unauthorized and unsupervised overdrafts of customers’ checking accounts.
- Unauthorized loans and falsified loan records.
- Employee embezzlements involving check kiting schemes.
- Unauthorized withdrawals from a correspondent account.
- Unreported teller shortages.

- C. Employees are encouraged to report verbally or in writing. Such reports should be factual rather than speculative or conclusive and contain as much specific information as possible to assure a clear understanding of the issues raised, to allow for proper assessment of the nature, extent and urgency of preliminary investigative procedures. Reports may also be made anonymously. However, identity may have to be disclosed to conduct a thorough investigation to comply with the law and to provide accused individuals their legal rights of defense.
- D. Supervisors, officers and directors as well as the corporate attorney receiving such reports shall ensure the matter is promptly referred to the appropriate authorities for review, evaluation and appropriate action. Oral reports must be documented by a transcription of the report, which is as accurate as circumstances allow. Reports should be forwarded up the corporate structure as far as (in the circumstances) appears appropriate, and supervisors are encouraged to err on the side of forwarding the report when in doubt.
- E. Each report of inappropriate activity shall be reported, in at least a summary fashion, to the Board of Directors.
- F. See Suspicious Activity Report Procedure, if applicable.

V. RED FLAGS OF FRAUD AND INSIDER ABUSE

- Dominant Officer with control over the institution or critical operational area
- Internal audit restrictions or unusual reporting relationships
- Lack of written or inadequately written policies
- Unusual or lavish fixed assets
- Management attempts to unduly influence examination or audit findings
- Material internal control deficiencies
- Frequent change of auditors
- High turnover in internal audit department
- Delay tactics, alterations or withholding records
- Large transactions with small out of town banks
- Ownership or control vested in a small group
- Difficulty determining who is in control
- Overly complex organizational structure, managerial lines of authority, or contractual arrangements without apparent business purpose
- Inaccurate, inadequate, or incomplete board reports
- Discontinuation of key internal reports
- No vacation taken by employee or officer

Management Level Red Flags

- Routinely contests exam findings by filing appeals,
- Fails to provide original documents-only provides copies

- Fraudulent financial reporting
- Use of aggressive accounting practices or tax motivated behavior
- Management lacks expertise needed to fully understand ramifications of proposals made by third parties or they perceive unrealistic opportunity to enhance income.
- Inadequate monitoring of significant controls
- Lack of timely or appropriate documentation for transactions
- Significant unexplained items on reconciliations
- Falsified bank documents
- Weak loan administration
- Significant related party transactions not in the ordinary course of business
- Significant numbers of bank accounts located in tax haven jurisdictions
- Weak internal controls and risk management

Lending Abuse

- Poorly documented loans and appraisals
- Lack of an acceptable past due or watch list.
- Lack of, or unsigned, borrower financial statements
- Questionable loan disbursements
- Loan funds disbursed to a third party
- Corporate loans with no endorsements or guarantors
- Large pay-down of problem loans prior to an audit or examination
- Large overdrafts
- Refinancing of debt in a different department
- Loans secured by flipped collateral
- Loans of unusual size or with unusual interest rates or terms
- Loans with unusual, questionable, or no collateral
- Loan review restrictions
- Questionable, out-of-territory loans
- Evergreen loans (loans continuously extended or modified).
- A considerable amount of insider loans
- Construction draws with nonexistent or inadequate inspection reports.
- Construction inspections conducted by unauthorized or inappropriate persons.
- Market study on proposed project not on file
- Loan approvals granted to non-creditworthy employees.
- Lack of independence between the approval and disbursement functions
- Frequent sales of collateral (land flips) indicating related party transactions.
- Predatory lending practices

Appraisal Fraud

- No appraisal or property evaluation in file
- Appraiser bills association for more than one appraisal when there is only one in the file.

- Unusual appraisal fees (high or low)
- Market data located away from subject property.
- Unsupported or unrealistic assumptions relating to capitalization rates, zoning change, utility availability, absorption, or rent level.
- Valued for highest and best use, which is different from current use
- Appraisal method using retail value of one unit in condominium complex multiplied by the number of unit's equals collateral value
- Appraisal made for borrower
- Appraisals performed or dated after loan
- Close relationship between builder, broker, appraiser, lender and/or borrower
- Overvalued (inflated) or high property value

VI. PROCEDURE

A. Reporting

1. Employment-related concerns (e.g. harassment by another employee, etc.) should continue to be reported through normal channels such as the immediate supervisor, HR Business Partner, or to the Executive Vice President – Chief Operating Officer.
2. Normally, the report of allegations of improper activity should be made to the reporting employee's immediate supervisor or other appropriate administrator or supervisor within the operating unit of the Bank. However, in the interest of confidentiality, where there is a potential conflict of interest or for other reasons, such reports may be made to another Bank official whom the reporting employee reasonably believes has either responsibility over the affected area or authority to review the alleged improper activity. In the event the employee does not know who would be the appropriate officer, the employee can make his/her report to the Bank President or to the Corporate Attorney, Patrick Murphy, phone: 414-277-5459, email: Patrick_Murphy@quarles.com)
3. Timing. The earlier a concern is expressed, the easier it is to take action.
4. Although the employee is not expected to prove the truth of an allegation, the employee needs to demonstrate to the person contacted that there are sufficient grounds for concern. Oral reports will be accepted but to insure the accuracy of the report, written reports are preferred. Reports should include as much information as the reporter has accumulated. Specific information of specific acts and dates is generally necessary for a follow-up investigation and evaluation of the nature, extent and urgency of the matter. Reports may be made anonymously. However, identity may have to be disclosed to conduct a thorough investigation to comply with the law and to provide accused individuals their legal rights of defense

B. Forwarding a Report

1. Supervisors, officers and directors as well as the corporate attorney receiving a report of inappropriate activity shall ensure the matter is promptly referred to the authority best able to both investigate the complaint and follow through on the complaint with an appropriate evaluation and action as necessary.
2. When the complaint is received as an oral report, the individual receiving the report shall reduce the report to writing as soon as practical and it should be forwarded as far up the corporate structure as may be necessary in the circumstances. Reporters and supervisors are urged to err on the side of forwarding the report when in doubt.
3. Each report of inappropriate activity shall be reported to the Audit Committee in sufficient detail to allow the Board to understand the nature, extent and urgency of the matter. Where the matter is still under investigation, a summary report will suffice.

VII. HOW THE COMPLAINT WILL BE HANDLED

A. The Audit Committee

The action taken will depend on the nature, extent and urgency of the concern. The Audit Committee receives a report on each complaint and a follow-up report on actions taken.

B. Initial Inquiries

Initial inquiries will be made to determine whether an investigation is appropriate, and the form it should take. Some concerns may be resolved by agreed action without the need for investigation.

C. Report to Complainant

1. Initial Response.

Whenever appropriate, the complainant will be given the opportunity to receive follow-up on their concern within two weeks of the date it is first received. This follow-up may include:

- a. an acknowledgment that the report was received;
- b. an indication of how the matter will be dealt with;
- c. an estimate of the time that it may take for a final response;
- d. an update on the status of the matter.

2. Conclusion.

Subject to legal constraints, the complainant will receive information about the outcome of any investigations.

3. The Audit Committee will notify the Human Resources Department of all activities involving an insider that are determined to be suspicious in nature. The BSA Officer will be responsible for filing a Suspicious Activity Report (SAR). All supporting documentation pertaining to the SAR will remain with the Human Resources Department.

PYRAMAX BANK reserves the right to modify or amend this policy at any time as it may deem necessary. This policy shall be reviewed by the Executive Vice President – Chief Operating Officer, at least annual, and if material revisions are necessary, will provide to the Board of Directors for their review and approval.