

# ANNUAL REPORT TO DEPOSITORS

## ECONOMIC OVERVIEW

The Federal Reserve has been engaged in the most aggressive tightening cycle of financial conditions since the 1980s. An inflationary spiral was ignited by both extraordinary monetary accommodation and unprecedented fiscal stimulus, undertaken to stem the financial impact of the pandemic. Inflation as measured by the Consumer Price Index (CPI) peaked at 9.1% in 2022, and even worse, the Producer Price Index (PPI) topped out at 18.3%. The Fed's inflation remedy has been to hike short-term interest rates by 500 basis points (5.00%) over the last 14 months. Further, the Fed reduced other extraordinary policy measures such as the open market purchase of U.S. Treasury and Mortgage Backed Securities, which was tantamount to further restriction of monetary policy, also known as quantitative tightening.



The ramifications of the Fed's policy about-face to combat inflation has been profound and far reaching, yet inevitable and necessary, as we outlined last year. Inflation and employment are the Fed's dual mandate and they unfortunately fell short in managing inflation risk, believing it was transitory until it became too late. The necessary policy catch-up has been painful to both the stock and bond markets and for anyone needing to finance a home.

The encouraging news is inflation has begun to dissipate, CPI is now around 5%, and the unemployment rate has remained relatively low, averaging just 3.6% since the beginning of 2022. The financial tumult unleashed by the Fed's abrupt policy tightening has contributed to three significant regional bank failures in the first half of 2023. The root cause of those failures can be attributed to poor asset/liability management practices at those institutions. Restrictive monetary policy was widely expected, but the failed institutions actively chose not to hedge their interest rate risk. They also ran their banks with an egregiously wide mismatch in asset and liability maturities, financed with inordinately large balances of short term uninsured deposits that took flight at the first sign of trouble. This was an entirely avoidable banking panic, those managements did not comprehend the most rudimentary lessons learned from the interest rate induced banking crises of the 1980s.

## FINANCIAL STRENGTH

Measured on a combined basis, as of December 31, 2022 Emigrant Bank and its Affiliated Banks had approximately \$6.5 billion in assets and over \$1.4 billion in total equity capital. Emigrant's total capital-to-asset ratio is over 22%, which places our capital strength among the highest in the nation of all U.S. banks with \$1-10 billion in assets. Emigrant's exceptionally conservative balance sheet provided the strong foundation from which it generated \$43.8 million of net income in 2022. Emigrant has historically closely matched the repricing of its assets and liabilities to reduce balance sheet exposure to market interest rate shocks. Vigilant interest rate risk management, coupled

with conservative credit underwriting, is the reason depositors continue to feel secure banking with us. Consequently, a well-matched balance sheet often reduces optimal marginal income. Emigrant has always favored the safety and soundness of a matched balance sheet consisting of high quality assets, funded largely with granular deposits that are diversified across the nation. It may be counterintuitive to some bankers to not chase short-term profits at every opportunity. However, we are first and foremost the trusted fiduciaries of our depositor's money. Profits are earned prudently year-in and year-out at Emigrant Bank, but are accrued only within a conservative framework of tightly managed risk.

## SERVING OUR CUSTOMERS

Emigrant Bank and its Affiliated Banks services around 200,000 depositor accounts and retains over 5,100 mortgage loans totaling nearly \$1.4 billion on our balance sheet. Emigrant's three internet bank initiatives; *EmigrantDirect*, *DollarSavingsDirect*, and *MySavingsDirect* are invaluable and effective ways for our customers to bank and save via the internet. Our diversified internet deposit base of approximately \$3.6 billion serves 172,000 accounts in all 50 states.

True to our 173 year history of serving small savers, nearly all of Emigrant's internet deposit accounts can be opened with as little as \$1. Depositors earn an attractive rate of interest, free of any account fees, and are FDIC insured up to \$250,000 per depositor. Our online savings accounts are consistent with our original banking charter. They offer safety, simplicity, and security akin to the reliability that Passbook Savings Accounts once afforded previous generations. All delivered in a modern easy to access and navigate online banking format.

## LOOKING AHEAD

Under the umbrella of our affiliate, New York Private Bank & Trust (NYPB&T) we are growing and reaching new clients across the nation. We help clients develop personal trusts and estate plans, offer asset management advisory services, and share innovative financing strategies. To learn more about our entire suite of private banking and investment businesses, please visit: [www.NYPBT.com](http://www.NYPBT.com).

Emigrant is an essential community bank that has increasingly operated on a national level in terms of deposit gathering and lending. Recent instability in the banking sector has been unnerving to many, and there may be some more troubled banks in the months ahead. The Milstein family has been fortunate to be stewards of Emigrant Bank for 37 of its 173 year storied history. The mini banking crisis of 2023 shall pass, just as the little known Bank Panic of 1907 has passed, which was coincidentally caused in large part by easy money policies pursued by the U.S. Treasury. Emigrant has stood strong through every panic, pandemic, recession, and depression since 1850. We are both prudent bankers and students of financial history who work diligently to ensure we avoid the mistakes that took down banks in 1907, in 2023, and in every other tumultuous financial period. This is why your savings, loans, and investments can be relied upon at Emigrant Bank. Thank you for your trust in us.



**HOWARD P. MILSTEIN**

Chairman, President and Chief Executive Officer