Designing and Developing a Uniform Approach to Customer, Product, and Organizational Profitability

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Executive Summary

Given the recent merger with BNB Bank in 1Q2021, Dime Community Bank is in a particularly unique situation, effectively doubling the Bank's asset size from $6 Billion to $12 billion and increasing its scale in terms of footprint and available capital to support company and community growth.

The scenario is especially unique given the fact that we are the only bank of our size in the highly competitive NYC/Long Island MSA and we realize that in order to capitalize on this scarcity value and remain sustainably profitable in the long run, we must achieve even greater scale to offset additional regulatory cost (Durbin Amendment, etc.). Given the need to grow and these enhanced regulatory requirements that come with crossing the $10 billion asset threshold, we also understand that it is of utmost importance for growth to be prudent and responsible, and that intelligent and informed business decisions are of the utmost importance.

Taking together all the ways in which Dime Community Bank is in new and urgent territory, the time is right to critically reassess our pricing strategy as it relates to all aspects of the Bank (existing customers, prospective customers, existing products, new product potential, etc.) to ultimately arrive at a comprehensive organizational profitability. To ensure detailed accuracy, we've designed a profitability assessment framework using a bottoms-up approach tying all pertinent income and expense components to the account/customer level allowing for the most flexibility in terms of rolling this information up to show branch, banker, lending team, an organizational profitability. The income and expenses that were ultimately brought in at the account level were segmented into 6 major categories:

1. Funds Transfer Pricing (FTP) – the spread-based valuation per deposit or loan instrument utilizing a coterminous match fund pricing methodology; analogous to net interest income at the individual deposit or loan level.

2. Noninterest Income – income below the margin from the collection of service charges and the offering of complementary products and services for Treasury Management (remote deposit capture, merchant services, cash management, etc.).

3. Noninterest Expense – expense below the margin representative of the Bank's pure cost to host loans and deposits and offer key services and complementary products.

This was derived by doing a deep dive analysis on the Bank's Fiserv Master Agreement in an effort to understand the per customer, per account, per transaction, per service, and per item charges on an individual basis, and appropriately pass them along to different customer populations throughout the bank based on their customer profile.

4. Overhead Expense – The application of additional expense beyond the direct expenses associated with product and service offerings (i.e. back-office department expenses, executive salaries, etc.). This requires calculating the Bank's total expense base less the total noninterest expense found in the Bank's Fiserv Master Agreement and making assumptions about allocation.

5. Loan Fees

   a. Deferred Fees – methodology derived to apply amortizing deferred fees (if applicable) to each loan based upon the deferred fee amount and amortization period through which the fees will be recognized into income

   b. Direct Fees – Additional fees recognized into income as they are incurred, largely taken from Addenda's found in the subledger (Premiere).

6. Loan Status – the risk rating assigned to different loans indicative of a probability of loss given default.

The ultimate goal of implementing this framework is to be able to tie each of these six components to each customer (to the extent they are applicable) at the instrument level (deposit/loan instrument), employing a more granular 'bottoms-up' approach to profitability modeling. While there are many pain-points associated in adopting a bottoms-up approach (identifying what constitutes a customer, sorting out account overlap, etc.), when complete, this allows for much more dynamic profitability assessment at all desired levels of analysis including customer (new and existing), branch, account officer, region, division, product, and organizational.

Additionally, mid-way through the project it became clear that the need to better understand the company's post-merger customer base was imminent in order to ensure proper

decision making in building out the profitability model. This was largely a result of the vastly different balance sheet profiles and strategic direction of either legacy company; Dime with a more consumer bank/thrift historical operating model and BNB with a more commercial bank operating model. In order to gain this understanding, the Strategic Planning group was asked to design and develop a Customer Metrics Tracking framework.

The direct cost of developing and implementing this customer profitability strategy annually is $379,527 ($2,030,179 in salary * 15% of project time allotted for key contributors) + ($75,000 in consultant expense). The overall financial impact will be recognized in the way of more precise and effective pricing decisions, in a more efficient time frame, especially when model buy-in is established. There will also certainly be a positive financial impact in better understanding the newly formed institution's customer base through the development of the Customer Metrics tracking framework as we will now have much better information regarding which customers have which products & services, and more importantly where sales opportunities exist in terms of these products & services.

There is of course a risk that the model does not receive the buy-in of senior management, or other key decision makers related to loan and deposit pricing, in which case the project could materialize in a large sunk cost in the way of time, effort, and actual dollars. One of the larger hurdles will be generating buy-in for the Funds Transfer Pricing method, which was implemented at Legacy BNB, but was not a pricing method employed at Legacy Dime. Since Net Interest Income is the cornerstone of any pricing and profitability model, the approach and time dedicated to thoroughly explaining and displaying the FTP method will be of utmost importance.

There should be little to no risk in soliciting buy-in for the Customer Metrics tracking framework as this was a direct ask from the Senior Management and Executive levels.

It should be additionally noted that with the project pivot/detour to include customer metrics tracking and segmentation, it is the expectation of the customer profitability working group and executive management that the new Customer Profitability Model be rolled out by Q3/Q4 2022, with testing to begin in Q2 2022 given the data infrastructure we plan on implementing.

Introduction & Background

Given the successful completion of the merger between Dime Community Bank and BNB Bank on 2/1/2021, it is important to define several terms that will be used throughout the duration of the report/presentation:

- **Legacy Dime Community Bank (Legacy Dime/L-Dime)** – will refer to Dime Community Bank prior to the merger with BNB Bank

- **Legacy BNB Bank (Legacy BNB /L-BNB)** – will refer to BNB Bank prior to the merger with Dime Community Bank

- **Dime Community Bank (Dime/the New Dime)** – will refer to the current entity of the two aforementioned merged companies.

Dime Community Bank is a financial institution formed in 2021, geared primarily towards commercial clientele, with a dedicated Residential Lending Platform and base level suite of consumer deposit and loan products. The sum of its parts are the Legacy Dime balance sheet and workforce and the Legacy BNB balance sheet and workforce.

Legacy Dime Community Bank was founded in 1864 as the Dime Savings Bank of Williamsburg and operated as a traditional consumer bank and thrift, serving Brooklyn and the surrounding Greater New York City Metropolitan area as a strong deposit rate competitor, residential lender, and multi-family lender for approximately 150 consecutive years. In 2016, Legacy Dime began to shift its focus to developing a commercial customer base with the intention of enhancing yield given the structure of the current (and ultimately sustained yield curve). To do this, former L-Dime CEO and current New Dime Board Chairman, Kenneth Mahon enlisted several renown NYC/Western Long Island industry personnel including Stuart Lubow (current New Dime President & COO) to lead the Business Banking Division.

Legacy BNB Bank was founded in 1910 as the Bridgehampton National Bank by the local farming community on the East End of Long Island and operated as the local marketplace bank of choice for small businesses, serving the North and South forks of Long Island with premier small business deposit and loan products, a smaller suite of residential lending

products, and a basic level of consumer deposit and loan products, for the better part of 100 years. In 2010, Legacy BNB made the decision to accelerate growth via westward expansion into the heart of Suffolk County, Nassau County and the Greater NYC Metropolitan area. To do this, L-BNB enlisted several renown Long Island industry personnel, including Kevin O'Connor (current New Dime Chief Executive Officer) as President and CEO to develop these westward markets that had been untouched by the company up to that point.

Given the extremely competitive nature of the NYC MSA, both new business line development and footprint expansion proved to be extremely tough. Either legacy company's leadership quickly recognized that that the profile of both balance sheets were as complementary as once could hope for; a premier funding base of over 40% demand deposit from the L-BNB side coupled with a premier base of business banking opportunity from the L-Dime side, and both with well-known marketplace talent throughout the Greater NYC Metropolitan area. The map below represents the New Dime branch footprint as of Q4 2021.

Fig. 1

From Montauk to Manhattan*

* As of February 2022

Strategy & Implementation

As a newly formed company, it has been of utmost importance to understand the inherent profitability of our balance sheet and lay out optimization strategies in order to hit our publicly disclosed merger targets. This inherent need has been the primary driver in focusing the company's efforts on thoughtful loan and deposit pricing and has ultimately driven the urgency for the development of a robust profitability modeling tool.

In the early stages of developing this new profitability model, it became clear that the customer profiles of Legacy Dime and Legacy BNB were quite different. As a merged entity, the New Dime's primary focus is on deepening and developing small business and middle market commercial relationships. In this respect, we have rapidly scaled back our product offerings and competitive rates on all consumer deposit products and made a concerted effort to aggressively grow DDA to achieve a 40% noninterest bearing deposit/total deposit benchmark by 2023 – a stated and published merger goal[1]. The immediate implementation of this particular strategy has created a mismatch between L-Dime and L-BNB retail branches as L-Dime was a historically consumer-centric, deposit rate driven entity and L-BNB was a historically commercial-centric, relationship driven entity with much less sensitivity as it relates to deposit rates.

Form here, Company management decided that an effort to better understand customer behavior and segment population types would be necessary in order to better interpret any results shown by our newly developed profitability model. With that, the focus of this overall study was broken into two consecutive steps:

1. The development of a Customer Metrics Tracking framework
2. The development of a comprehensive Customer Profitability model

1. Customer Metrics Framework

Work began on the Customer Metrics Framework in November of 2021 (with October 2021 data) and has been consistently reported to Executive Management, Marketing, and the Retail Branch network with many new ideas on data presentation having been suggested. On this point, I've treated the customer metrics reporting as an iterative and evolving process.

The first effort in working towards customer metrics tracking was in aggregating and validating the customer data. In this regard, the Data Analytics sub-group of the Strategic Planning division was relied on heavily and established parameters to make several key definitions in terms of how we will interpret any of the customer metrics tracking results. They are as follows:

a. **Customer –** defined as the primary Name ID (CIF key) that captures the maximum number of related deposit and loan accounts under which other related Name IDs (primary, secondary, or tertiary and beyond) also fall

b. **Commercial Customer** – any customer aggregation based on the definition above with at least 1 business account

c. **Consumer Customer** – any customer aggregation based on the definition above containing only consumer accounts

d. **Municipal/Public Customer** – any customer aggregation based on the definition above containing a municipal/public funds account

e. **Single Product Customer –** any customer with only one account

f. **Multiple Product Customer** – any customer with more than one account

g. **Service Customer** – any customer with at least 1 transaction in the trailing 2 months in at least 1 of the following services:
   i. **ACH**
   ii. **ATM**
   iii. **Mobile Deposit**
   iv. **POS (Point-of-Sale)**
   v. **RDC (Remote Deposit Capture)**
   vi. **Zelle**
   vii. **Direct Deposit**
   viii. **Incoming Wire**
   ix. **Outgoing Wire**

Once the data was aggregated with all the necessary fields for segmentation, the next step was to solidify the design considerations as to how the information would be presented in

order to effectively extract meaningful findings. The logical first level of segmentation was on customer type – Commercial, Consumer, or Municipal/Public Funds. Designing the reporting in this way seems to make the most sense given the fact that the customer type is directly associated with variations in how an account will behave given events like rate increases/decreases, large-scale extenuating circumstances (i.e. global pandemic), etc. It also immediately parses out commercial customers and allows us to see the degree of success we've had in garnering commercial business (our stated ideal customer and rationale for merger) and provides some insight as to the effective or ineffective tactics we've employed in growing this business.

After separating the data by customer type, I decided to look at it in three separate ways:

- By product (single product vs. multiple product customers per population type)
- By service (no service, single service, and multiple services per population type)
- By trend per service, per customer type (# and % trend back to June 2021 of checking customers in each of the 3 customer types in each of the 9 services defined above).

Below are examples of each:

Product Analysis

Commercial Customers *(Defined as a Customer with a Business Account) - $'000s in thousands*

Fig. 2

Commercial Customers

Single Product

Customer Type	Customers	Balances	August Weighted Tenure	Weighted # of Services	WAR	Customers	Balances	December Weighted Tenure	Weighted # of Services	WAR
Checking Customer	17,448	$2,127,722	5.0	2.33	0.00%	17,164	$2,024,614	5.4	2.21	0.00%
Non-Checking	2,110	$583,046	7.0	1.20	0.08%	2,425	$552,927	7.1	0.94	0.19%
Tenants with Single Account	9,367					-				
Total	28,925	$2,710,768	5.4	2.1	0.02%	19,589	$2,577,541	5.8	1.9	0.04%
Total Less Tenants with Single Accounts:	19,558					19,589				

Multiple Products

Customer Type	Customers	Balances	August Weighted Tenure	Weighted # of Services	WAR	Customers	Balances	December Weighted Tenure	Weighted # of Services	WAR
Checking Customer	3,298	$1,871,081	7.9	2.94	0.06%	3,272	$1,881,144	7.8	2.80	0.04%
Non-Checking	198	$23,071	9.7	0.14	0.11%	180	$20,278	11.1	0.10	0.06%
Total	3,496	$1,894,152	7.9	2.9	0.06%	3,452	$1,901,422	7.9	2.8	0.04%

Total Customers

Customer Type	August Customers	August Balances	August Weighted Tenure	August Weighted # of Services	August WAR	December Customers	December Balances	December Weighted Tenure	December Weighted # of Services	December WAR
Checking Customer	20,746	$3,998,803	6.3	2.61	0.03%	20,436	3,905,758	6.6	2.50	0.02%
Non-Checking	2,308	$606,117	7.1	1.16	0.08%	2,605	573,205	7.3	0.91	0.18%
Tenants with Single Account	9,367					-				
Total	32,421	$4,604,920	6.4	2.4	0.03%	23,041	4,478,963	6.7	2.3	0.04%
Total Less Tenants with Single Accounts:	23,054					23,041				

Service Analysis

Commercial Customers *(Defined as a Customer with a Business Account) - $'000s in thousands*
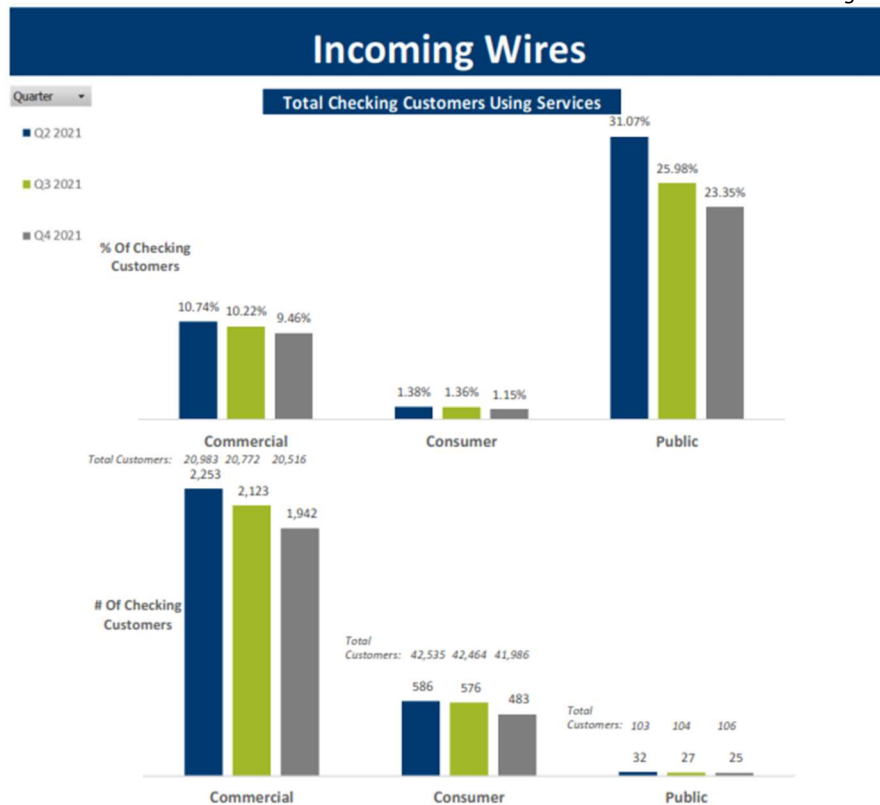
Commercial Customers

No Services

Customer Type	August				December			
	Customers	Balances	Weighted Tenure	WAR	Customers	Balances	Weighted Tenure	WAR
Checking Customer	7,445	$490,815	4.6	0.03%	8,171	$611,018	4.5	0.01%
Non-Checking	1,957	$323,300	6.0	0.10%	2,354	$309,202	7.3	0.08%
Tenants with Single Account	9,367				-			
Total	18,769	$814,115	5.1	0.06%	10,525	$920,220	5.4	0.04%
Total Less Tenants with Single Accounts:	9,402				10,525			

Single Service

Customer Type	August				December			
	Customers	Balances	Weighted Tenure	WAR	Customers	Balances	Weighted Tenure	WAR
Checking Customer	4,441	$537,472	5.1	0.03%	4,327	$518,841	6.2	0.02%
Non-Checking	221	$83,188	4.5	0.10%	158	$85,380	4.8	0.14%
Total	4,662	$620,659	5.0	0.04%	4,485	$604,221	6.0	0.04%

Multiple Services

Customer Type	August				December			
	Customers	Balances	Weighted Tenure	WAR	Customers	Balances	Weighted Tenure	WAR
Checking Customer	8,860	$2,970,516	6.9	0.03%	7,938	$2,775,900	7.1	0.02%
Non-Checking	130	$199,629	9.9	0.06%	93	$178,623	8.5	0.38%
Total	8,990	$3,170,145	7.1	0.03%	8,031	$2,954,523	7.2	0.05%

Trend per Service

Incoming Wires

Total Checking Customers Using Services

Total Customers: 20,983 20,772 20,516
Total Customers: 42,535 42,464 41,986
Total Customers: 103 104 106

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After 3 iterations of this newly developed Customer Metrics presentation, the deeper dive into the composition of Dime's customer base has proven to be highly insightful and has prompted several follow-up requests to further enhance the business intelligence we extract from our data. These additional reports and their definition/rationale are as follows:

- **Monthly reports on No Service, Single Service, and Non-Checking customers** – Using the actual source data inclusive of customer name, I've decided to draft these reports each month for each of the 3 customer types sorted by region, branch, and account officer and distribute them to Branch Network and Private Banking leadership. This is a step towards empowering our customer facing employees with sales opportunities.

- **Customer Migration Analysis** – This report isolates the customer populations of 0 service, single service, multiple service, and non-checking customers in each of the 3 customer types from the prior month and shows what customer population they are a part of this month, allowing us to see if and where they migrated to or if they remained a part of the same customer population. This report has only been produced once to this point and is shown below, as I've found it easier to understand how the report functions by seeing it rather than reading its definition:

Fig. 5

0 Service Customers Migration Analysis

DIME	November 2021	December 2021			
	0 Service Customers	0 Service Customers	Single Service Customers	Multiple Service Customers	No Longer A Customer
Commercial	9,699	9,430	0	0	269
Consumer	28,602	28,020	0	0	582
Public	31	31	0	0	0
Total	38,332	37,481	0	0	851

Single Service Customers Migration Analysis

DIME	November 2021	December 2021			
	Single Service Customers	Single Service Customers	0 Service Customers	Multiple Service Customers	No Longer A Customer
Commercial	4,501	3,719	720	1	61
Consumer	9,726	8,261	1,364	0	101
Public	31	31	0	0	0
Total	14,258	12,011	2,084	1	162

Multiple Service Customers Migration Analysis

DIME	November 2021	December 2021			
	Multiple Service Customers	Multiple Service Customers	0 Service Customers	Single Service Customers	No Longer A Customer
Commercial	8,903	8,000	94	745	64
Consumer	27,745	25,734	250	1,570	191
Public	84	80	0	4	0
Total	36,732	33,814	344	2,319	255

Non-Checking Customers Migration Analysis

DIME	November 2021	December 2021		
	Non-Checking Customers	Non-Checking Customers	Checking Customers	No Longer A Customer
Commercial	2,619	2,572	10	37
Consumer	24,136	23,650	113	373
Public	40	40	0	0
Total	26,795	26,262	123	410

The development of these additional reports, specifically the customer migration analysis, has prompted ideas and requests for even more targeted customer analysis. The development of these further analyses began in February 2022 and are as follows:

- **New Checking Customer Referral Opportunity Report –** As shown in the 4th table of the customer migration analysis on the prior page, there have been 123 existing customers (10 Commercial and 113 Consumer) that migrated from the non-checking customer population to the checking customer population. The intention is to compile a report of who these customers are, what region/branch/relationship officer portfolio they're in (similar to the No Svc., Single Svc., Non-Checking reports already developed), and what services they currently do and don't utilize. The report will then have a separate section showing the newly onboarded checking customers who began their overall relationship with Dime in the current month of analysis and what services they do and don't utilize. The idea of this report is to hopefully provide the Branch and Private Banking networks a streamlined view of the customers with the highest likelihood of engaging in adoption of our service offerings.

- **Migration Analysis by Tenure Tranche –** This set of reports will be a more granular version of the current Customer Migration Analysis by including the additional variable of each customer's relationship tenure. The intention of these reports is to assess account behavior based upon how long a customer has been with Dime Community Bank. It will also parse out the truly new customers, who's behavior is typically far more volatile than customers who have been with a bank for an extended period – this was a direct suggestion from our Marketing group. This will ideally be 3-4 reports with tenure ranges (TBD). The reports will also provide key information in the Marketing group's Customer Journey project, already in flight.

- **Direct Deposit Customers –** This is a more granular segment of the checking customer base. Since direct deposit is typically a signal that a customer uses that particular financial institution as their main bank, it would be good to know

what additional services they don't already utilize, as they may be a segment that's more likely to adopt these additional services given their perceived stickiness as a customer.

- **Database Repository –** As the Customer Metrics reporting has evolved over the last several months, it has become clear that storing the monthly results is imminent, especially as it relates to the Customer Migration analysis. As we continue to grow and report on customer metrics results and population migration, having history stored in a managed database will make for ease of use in reporting and represent a strong historical customer record which can be used to better understand customer type and product type behavior. It should be noted that this is a longer-term goal as it will require extensive planning and resources in order to properly execute. It has, however, been noted and cited as a long-term goal of the Data Analytics group.

The Customer Metrics framework has proven to be a valuable and necessary first step prior to finalizing the New Dime's dynamic profitability model. In taking this deeper dive into the customer base, I've realized that this information should be taken together with whatever the eventual results of the profitability model are and the two should be taken together.

2. <u>Customer Profitability Modeling</u>

As discussed above, the design of an enhanced Customer Profitability Model has been the primary objective of the New Dime, with an eye towards smarter relationship pricing and a deeper understanding of product and organizational profitability. Now that we have a deeper understanding of our customer base and have laid the foundation/begun working towards establishing a set of unique customer profiles, the development of our profitability model has been much more focused as we now have keener insight in terms of expense allocation (direct and overhead), setting result thresholds, etc. In this way, the Customer Metrics framework *informs* the profitability model and the results of the two should ultimately be reviewed together.

As discussed above in the Executive Summary, the main drivers of the updated profitability model are, at the individual financial instrument level:

    i.   **Funds Transfer Pricing (FTP)**

    ii.   **Noninterest income**

        a. Direct Fees – taken into income at time fee is assessed

        b. Indirect Fees – fees deferred and taken over the life of a financial instrument (deferred loan fees), or fees assessed but waived as a result of analysis pricing/earnings credit offset).

    iii.   **Noninterest Expense**

        a. Direct & Indirect (Overhead)

    iv.   **Loan Status (Risk Rating)**

One of the largest challenges in developing this type of modeling is in pulling all of the data together in a single location to ensure reporting is from a "single source of truth," making sure all data points are validated, and then organizing all of these data points in such a way that they are all appropriately tied to respective and relevant individual deposit & loan accounts which are rolled up to a customer level and can be dynamically accessed by end users for visibility on profitability in terms of timely decision making and reporting.

In a recent survey conducted by Syntellis (parent-company of Axiom EPM – financial software solution used by L-BNB and currently by the New Dime), pulling data from disparate sources into a single report is the biggest reporting challenge for 62% of respondents[2]. For this reason, the profitability project has relied heavily on Dime's Data Analytics group in strategizing and planning the framework of the brand-new database that will house all of the relevant profitability dimensions from above by account, as well as a customer name/NameID table (to ensure all necessary loan and deposit accounts are captured per customer), and eventually the customer metrics framework results components which we realized after beginning its rollout could provide valuable customer insight.

This is also why the expected timetable to putting the profitability model into production is likely Q3 2022 at the earliest, as building a database from scratch, ensuring all of

the data sources are validated, automating their extract from origination source/upload to database, and ensuring all key fields are appropriately linked and related as expected is an incredibly large undertaking that requires extremely thoughtful planning and consideration. As an organization, Dime has decided to truly take the necessary amount of time and effort to build this profitability framework (and subsequent database) out to the most complete extent. We are of the opinion that if we fall into the trap of rushing the buildout and time to go-live, then we will fall back into the same trap of those 62% of respondents in the Syntellis survey referenced above, settling for compiling data from disparate sources in the interest of time.

i. **Funds Transfer Pricing**

Generally speaking, the cornerstone of any strong, informative profitability model employs the use of Funds Transfer Pricing, or FTP, which allows a financial institution to more accurately measure the cost or credit of funds lent out to borrowers or taken in by depositors. In simplest terms, FTP assigns a cost to originate a loan based upon its maturity date and/or its repricing behavior and will assign a credit for any associated deposits to that loan, generally based upon the average duration of a deposit product. For a CD, this would also be based upon the maturity date. When taking these two independent FTP calculations together, we can arrive at a comprehensive Net Interest Margin for any relationship, branch, account officer, etc. This is incredibly valuable, as it allows us as an institution to see which customers, branches, and relationship manager portfolios truly drive (or drag down) our overall Net Interest Margin, which is typically a financial institution's largest source of profit, representing 50-90% of net income[3].

One of the initial questions and points of confusion for anyone unfamiliar with FTP is regarding why we go through this exercise of assigning separate costs/credits to related financial instruments on either side of the balance sheet. Why not just have those deposits fund that loan or loans? The answer here is duration. If a borrower takes a 10-year fixed rate loan out for $1,000,000 and keeps approximately $500,000 in a non-maturity checking account, we really can't say that the loan is halfway funded by the borrower's deposit base since that $500,000 can leave at any time, while the loan will be here for 10 years based upon the loan terms.

3 – "What is Funds transfer Pricing?." Synetllis.com

For this reason, the industry standard approach to FTP is to use a Match-funded, Coterminous marginal dollar analysis, or treat the loan and deposit bases as wholly independent and assess their profitability based on an agreed upon funding curve (L-BNB and New Dime use the Federal Home Loan Bank Curve of NY – FHLBNY). As it relates to loans, this methodology asks how are we funding the next dollar(s) of loans without relying on the funding base? The answer is a combination of the time to maturity/rate reset date, amortization, point in time. For a fixed rate/adjustable-rate loan, we will fund at the point of the FHLB curve consistent with the loan's time to maturity. This rate will be fixed as FTP assesses the decision-making at the time the loan was made, protecting inherent interest rate risk in times of rising or falling rates. For a floating rate loan, the funding will always be consistent with the time-period of the floating rate loan's reset schedule. So, if this loan resets every month, the FTP charge associated will float along the same schedule and will be calculated against the 1-month FHLB rate month over month, also protecting interest rate risk as the interest and subsequent FTP charge will reset together.

On the deposit side, an FTP credit is assigned to represent the value these deposits have over their typical duration. The best source of determining the typical duration of any financial institution's funding base to in looking at their most recent deposit study or having a deposit study done if one has not been conducted already. The study will show the duration, sensitivity, and characteristics of each deposit type which will then inform the way in which FTP credit assignment is established. The table below shows Dime Community Bank's current FTP crediting rate assignment:

Fig. 6

FTP Key Rate Assumptions									
Term (months)	1	3	6	12	24	36	60	66	72
				<-- Weightings -->					
DDA	25%								75%
NOW	25%								75%
Savings	25%					75%			
MMA	33%							67%	
MMA (Consumer)	33%			67%					

The assumptions in the table are centered around L-BNB's initial FTP setup in 2018 with several tweaks made in January/February 2021 to account for L-Dime's larger consumer base.

As shown above, each deposit type has some component of the 1-month rate to account for the fact that these deposits are not tied to any maturity period. This weighting is lesser for less rate-sensitive accounts (Demand Deposit, Negotiable Order of Withdrawal, and Savings) and higher for more rate sensitive accounts (Money Market). This higher weighting on the short-end was an adjustment made in early 2021 upon the merging of the two legacy companies. We also separated out Consumer Money Markets as this was a very large piece of the Legacy Dime funding base and is very rate sensitive. For this reason, we increased the short-end weighting to 33% and took the remaining 67% down to 12 months, breaking it out from the 66 months on the commercial money market side. We chose to keep a majority of the L-BNB FTP crediting rate assumptions since the post-merger strategy of the company has been to focus on commercial relationship building.

The framework for tying FTP cost and credit at the instrument level was already in place through the 2018 FTP implementation at L-BNB and has been kept current. The use of Funds-Transfer pricing has been centric to several projects including two branch rationalization studies (one at L-BNB and one at the New Dime) resulting in the closure of eleven branches in order to generate cost savings. FTP is also centric to a monthly Branch Profitability Report designed at the New Dime.

ii. **Noninterest Income**

When we consider noninterest income, or all the additional income we receive "below the margin" (net interest margin), we talk about these items in four distinct ways:

- Direct fees on Deposits - collected income on deposit accounts or "hard charges"
- Direct fees on Loans – collected and realized income on loan accounts at the time of their charge
- Indirect fees on Deposits - "Soft charges" or analyzed income on deposit accounts
- Indirect fees on Loans - Deferred income on loan accounts

a. **Direct Fees – Deposits**

The bulk of the direct fees associated with deposit accounts are those of monthly service charges, Nonsufficient Funds fees (NSF), and merchant services charges

(commercial only). Capturing an accurate picture of these at the individual deposit account level has been one of the largest challenges at Legacy BNB which has continued to be a pain point at the New Dime since we adopted the Legacy BNB core platform. The trouble stems largely from the lack of specificity of any fees in L-BNB's core, Fiserv Premiere, which is the only current way to capture them at the individual customer level. There are only fields for Service Charges, NSF, and "Other Charges," as well as their respective "Waived" fields, with little to no clarity around what is contained within each. This problem has been exacerbated by the lack of continual update to these fields in core since initial setup as there are now no remaining employees who led the Premiere core implementation at L-BNB still with the newly formed Dime and no maintained data dictionary for reference. There are also challenges associated with a lack of clarity around what transaction codes are contained within each of these core fields, and whether or not they also capture indirect, analyzed charges that may not actually be collected as a result of earnings waiver credits for certain commercial customers. This was raised as a possible source of the issue given the fact that we have never been able to fully prove the core system fee amounts to the general ledger fee amounts.

In fact, the only reason we have been able to produce the aforementioned branch rationalization studies and branch profitability reports that were used to make large organizational decisions was due to the fact that each of these branches have their own cost center, and therefore have the necessary fee GLs roll up to them. So, we were able to capture the FTP at the account level and roll it up to each branch (since the instrument level also has a validated department flag), and then take the noninterest income and noninterest expense at the general ledger/cost center level. This methodology, however, does not neatly translate to the customer/relationship level beyond making very high-level assumptions about fee income, which was done at L-BNB. In the spirit of developing a truly comprehensive profitability model with account-level accuracy, we have decided to try and tie as

much at the account level as possible and not settle for this high-level assumption approach.

Currently, there are a couple of derivative projects in flight that are working to solve this issue, one of which is the development of the previously mentioned customer relationship database which requires the Data Analytics team taking a deep dive into all of the core fields sitting in Premiere. Additionally, a transaction code mapping project was kicked off in Q3 2021 aiming to clean up and better understand which transaction codes are mapped to which GLs and fields in our core system and update this process to ensure that we don't have transaction types using a common transaction code. Once this effort is complete (targeting late Q1 2022), we should be able to query transaction reports inclusive of these transaction codes and the accounts on which the transactions occurred. Being that this will have the account number key field, we will be able to marry this up with the profitability analysis and report more granular noninterest income than ever before.

Lastly, Dime has opted to separate out the tracking of our merchant services income through the hiring of 2 dedicated merchant services personnel at the start of 2022 and the onboarding of a new software solution, Iris, which will provide better account level reporting for all customers who utilize Dime's merchant services. I've already communicated with out newly hired Director of Merchant Services Sales to better understand our merchant services pricing and have provided him with a report template to receive this income at the account level for extract and monthly upload to our database.

b. **Direct Fees - Loans**

Direct fees associated with lending relationships, particularly in the commercial lending space are comprised mainly of loan swap fees and prepayment penalty fees. There are also several other fee components, but these generally make up much less of the direct fee income associated with loan accounts.

Swap loans have always been done in conjunction with a third party who bridges the gap on the back-to-back loan swap that we make alongside our swap with the

borrower, with a larger financial institution (typically Goldman Sachs, Wells Fargo, etc.). As such, the most comprehensive list of our swapped loans, complete with swap-specific information is retained and provided by this third party, Chatham Financial Corporation, with whom we engage as our swap dealer. The information, while more comprehensive as it relates to swap information than anything the core system or general ledger would provide, is not provided by Chatham inclusive of a loan account number and instead only includes the borrower name. In order to store this file in the newly rolled out database and tie it to anything profitability-related (customer, branch, account officer, etc.), we realized that we needed to build logic into this file after it is received from Chatham to assign the loan number per swap loan prior to implementation with core. This was, fortunately, one of the simpler fixes in the grand scheme of profitability model design considerations and implementation.

The other loan-specific direct fees proved to be a bit more challenging as they had historically always been booked to one cost center at L-BNB with little to no reliable description showing what customer, loan number, or account officer the fee was tied to. Up until this deeper dive on profitability, things like prepayment fees had always been omitted from these types of analyses and were asterisked as unavailable based upon the previous description. In working through the profitability analysis update, in conjunction with rolling out the loan incentive plan which also calls for the inclusion of these fees, I was able to work with the Loan Operations group and determine that there are a handful of addenda reports that we can extract from Premiere that show which loans had prepayment penalty income, origination income, or other fee income. These are in the process of being set up on an automated extract schedule to be imported to the database.

c. **Indirect Fees - Deposits**

As I've highlighted several times to this point, one of the biggest challenges both L-BNB and L-Dime has faced is in understanding the true impact of analysis checking charges. These are the service fees and Treasury Management fees that are

calculated and waived as a result of a crediting rate (earnings credit) assigned to analysis customers' average collected balances from month to month. From a profitability standpoint, especially as a commercial bank, it is of utmost importance to understand what these fees are before application of the earnings credit. This is what we define as "soft-dollar charges" or "soft charges." These are important because from a profitability perspective, we ought to include them as we've already made the declaration that the customer has the ability to make up for these fees by retaining a certain level of balances in their accounts. Additionally, and perhaps more importantly, having the ability to see these fees prior to their waiver by earnings credit provides an important sanity check on what our analysis earnings credit rates are and could inform the necessity to reassess analysis pricing, especially since the balances used to offset the fees will also be considered from an FTP perspective in our comprehensive profitability analysis.

Fortunately, Legacy Dime had begun implementing Weiland Account Analysis starting in the middle of 2020, prior to the merger. This solution, another Fiserv product complementary to the New Dime's core system, is a far more transparent solution than anything either legacy company has had to date and allows for dynamic soft charge visibility (branch, account officer, and account level). This is also important because given the direct/hard-charge fee challenges we've had, the soft-charge Weiland data point(s) can act as a necessary additional variable to back-solve for hard dollar charges by taking the total fee income amount per fee income type less what is actually collected per the same fee income type from analysis customers in Weiland. This provides at least some additional clarity in terms of true fee income and has been a strong breakthrough in understanding fee income below the margin.

Weiland data has been available for testing and limited use since around November/December of 2020 with all new analysis customers being onboarded to this platform. The migration of the entirety of the customer base on L-BNBs Premiere Analysis solution to Weiland has taken place throughout January and February of 2022, with rollout scheduled for March of 2022.

Similar to the other ancillary data sources, feeds are to be established from Weiland to our primary database.

d. Indirect Loan Fees

The final segment of fees refers to loan fees that are agreed upon at the time of loan origination but are deferred (or amortized) over the life of the loan. These are primarily loan origination and loan commitment fees that receive this treatment as per the Financial Accounting Standard Board[4]. While generally smaller in nature, in aggregate these fees can become meaningful to a customer or account officer/lender's overall profitability. For this reason, a framework to capture these fees was developed by the New Dime originally to capture the deferred fees and take them into noninterest income over time for incentive compensation purposes. As we began developing our customer profitability model, we realized that this same framework ought to be applied to our population of loan customers who have deferred fees and captured in our modeling.

The framework for these deferred fees is fairly simple but does require an additional effort at this time as similar to the direct loan fees, at the GL level the deferred fees are all captured in a single cost center with little to no description as to what loan, loan officer, or lending team they belong to.

In order to capture these fees by team, the Strategic Planning Group has developed a report from our data mart at the loan level that shows existing loans with deferred fees inclusive of a calculation that determines the amount of the total deferral taken into income per month, based on the life of the loan and total deferred fee amount. I have also developed logic to show what this monthly amount translates to from an annual perspective and have also implemented logic to take the full deferral amount into income in the event any of these loans pays off since as a financial institution, we would recognize the full remaining deferred fee amount into income at this time as per Generally Accepted Accounting Principles (GAAP).

iii. **Noninterest Expense**

a. **Direct Expense**

The direct noninterest expense approach to our enhanced profitability modeling is perhaps the most notable feature in terms of what we believe sets it apart from traditional community banking models as we've developed a template that assesses all expenses from our core service provider, Fiserv. The template takes all the individually charged expenses by line item within the consolidated Fiserv bill (i.e. all charges from Fiserv on a monthly basis - a majority of the direct business line expense) in conjunction with the number of transactions per transaction type and calculates what we owe to Fiserv. The total expense output from the template is then taken into a proof against our general ledger to ensure it is calculating properly. This allows us to have a firm handle on direct fixed costs (recurring monthly charges) and direct variable charges (charges based on item/transaction volume) with insight on how to allocate these expenses to our customer base given the type of expense.

The template is segmented into eight broader categories that further define the customers to which these particular charges should apply, each containing subcategories. The eight broader categories and their customer breadth are as follows:

- ACH Services - all customers using ACH services
- Zelle & Billpay - all customers using Zelle and/or Billpay
- Premier IH (In-house) – all customers utilizing in-house hosted solutions
  - All of these charges will be applied to the entirety of the deposit - customer population with only WireXchange being further segmented as we have a good understanding of our customer base using wire services
- Deposit Solutions (capture, electronic services, etc.) – all deposit customers
- EFT/Card Services – all debit card customers
- Weiland – all analysis customers
- CFS Services/Architect – all deposit customers

- Commercial Center – all customers using our newly onboarded Commercial Center application

This segmentation of the direct expense allocation also shows how important the development of the customer metrics framework has been, and how it informs the profitability model. We now have an established criteria and much better understanding regarding what customers are using what services, and a live resource for defining what customers should receive what charges.

At present, we've only received the November 2021 consolidated and validated bill from Fiserv and as such, have only been able to extrapolate from this single datapoint. In order to forecast the go-forward direct expense for the bank, I decided to first calculate the contribution % of direct vs. indirect expense to overall noninterest expense for the only available month of November. This is shown below in Fig. 7:

Fig. 7

		Nov % NIE
Total Direct Expense:	**$617,808**	**4%**
Additional Noninterest Expense (Overhead):	$16,730,261	96%
Total Noninterest Expense:	**17,348,069**	**100%**

As shown above, the total direct expenses produced by the template for November's Fiserv bill constitutes 4% of the overall noninterest expense. From here, I ran two projections to show an annualized run rate for noninterest expenses:

 1) by annualizing the direct and indirect expenses from November's results alone, yielding an annual noninterest expense projection of $211 million;

 2) by taking 6 months of noninterest expense from July 2021 to December 2021 (our assumed, post-merger normalized expense run-rate) and segmenting direct and indirect expense according to November's % of direct vs. indirect noninterest expense, yielding a total annual noninterest expense run-rate of $194 million.

Given Dime's adjusted annual noninterest expenses of approximately $187 million for 2021, in conjunction with 2022 guidance of $197-$199 million of noninterest expenses, it appeared more prudent to use the latter as this foots in step with a

conservative 5% noninterest expense increase. I also believe, after calculating both noninterest expense forecasts, that November appears to be an outlier, as shown in Fig. 8 below:

Fig. 8

DIME	**Jul-21**	**Aug-21**	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Total - 6 months**	**6 month run rate** **Jul 2021 - Dec 2021**
Total Noninterest Expense:	15,274,423	15,866,669	17,933,226	15,962,266	17,348,069	15,349,966	97,734,619	193,875,738
Total Direct Expense - 4% application:	*$543,960*	*$565,052*	*$638,647*	*$568,456*	*$617,808*	*$546,651*	*3,480,573*	*6,904,398*
Total Additional Noninterest Expense (Overhead) - 96% application:	*$14,730,463*	*$15,301,618*	*$17,294,579*	*$15,393,810*	*$16,730,261*	*$14,803,315*	*94,254,045*	*186,971,340*

b. Indirect Expense

Given our assumptions around direct noninterest expense shown in the table above, this means that we are assuming approximately $15.7 million in monthly overhead expense (or $187mm annually). Upon the implementation of the FTP module in 2018, L-BNB conducted an exercise to assign overhead cost by product type and loan/deposit size. As a first pass, I decided to fit this overhead expense application scheme to the New Dime's loan and deposit portfolios. This yielded a total annual overhead expense of $179 million when the product-specific overhead expenses. Since this is within 5% of the overhead expenses to be applied to the current 6-month run rate, we were comfortable using the L-BNB overhead application methodology. The Overhead Cost Allocation detail is show in Fig. 9 below:

Fig. 9

DIME **Overhead Cost Allocation methodology**			**Level 1** **expense alloc** **($0-$1M Loan /** **<$10K Deposit)**	**Level 2** **expense alloc** **(>$1M-$5M** **Loan / >=$10K** **Deposit)**	**Level 3** **expense alloc** **($5M+ Loan /** **>=$10K** **Deposit)**
FTPPROD	**PROD Name**	**Type**	**ExistExpAlloc1**	**ExistExpAlloc2**	**ExistExpAlloc3**
170001	Personal/Non Personal Checking	Deposit	$605	$2,420	NA
175201	NOW Personal/Non-Personal Checking	Deposit	$77	$308	NA
188501	Premier MMA Personal/Non-Personal	Deposit	$880	$880	NA
270103	Personal/Non-Personal Statement Savings	Deposit	$528	$528	NA
370101	Personal/Non-Personal CDs	Deposit	$264	$264	NA
513711	Business Line of Credit	Loan	$2,978	$5,956	$7,571
111071	Commercial Construction	Loan	$2,978	$5,956	$7,571
114091	Commercial Construction	Loan	$2,978	$5,956	$7,571
196381	Commercial Mortgage - Non-Owner Occupied	Loan	$2,728	$5,456	$6,821
143211	Residential Real Estate Secured	Loan	$1,819	$3,638	$4,547
149401	Commercial Mortgage	Loan	$1,819	$3,638	$4,547
152781	HELOC Prime	Loan	$1,819	$3,638	$4,547
153791	HELOC Prime	Loan	$1,819	$3,638	$4,547
197441	Commercial Mortgage - Owner Occupied	Loan	$2,274	$4,547	$5,684
180501	Multi-Family Mortgage	Loan	$2,274	$4,547	$5,684
511701	Business Line of Credit	Loan	$2,978	$5,956	$7,571
517731	Business Term Loan Taxi Medallion	Loan	$2,978	$5,956	$7,571
650901	Consumer	Loan	$1,137	$2,274	$2,842
999021	SSLLP Covenant	Loan	$2,728	$5,456	$6,821

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iv. Loan Status (Risk Rating)

Loan risk rating is something that we have already been extracting from core at the instrument level and implementing into Axiom, so this has been fairly simple to implement into the profitability model as it is already in the database that we have been pulling from. The same study done at L-BNB to assign overhead cost also took into account necessary capital allocation based upon each loans risk rating. The higher the risk rating (i.e. the riskier the loan), the more capital allocation required. The capital allocation was consistent for each loan type and is as follows:

- Risk Rating 1 – 6.5% capital allocation
- Risk Rating 2 – 7% capital allocation
- Risk Rating 3 – 7.5% capital allocation
- Risk Rating 4 – 8% capital allocation
- Risk Rating 5 – 8.5% capital allocation
- Risk Rating 6 – 9% capital allocation
- Risk Rating 7 – 10% capital allocation
- Risk Rating 8 – 25% capital allocation
- Risk Rating 9 – 50% capital allocation

The allocation begins to run up the scale starting at risk rating 7-9 since these loans are deemed special mention, watch, and problem loans, so their likelihood of requiring charge-off are much higher. We also decided not to implement additional cost since we are already requiring that there be more capital required. By design, requiring more capital will inherently drive down the Return on Average Assets (ROAA), Return on Average Equity (ROAE), and RAROC (Risk-adjusted Return on Capital) of any relationship since the denominator for each ratio will be higher with riskier loans and the numerator will be the same.

Financial Impact

        In reality, the size and scope of this project ultimately touches all aspects of the bank and marks the recognition that a bank of the New Dime's size needs to transition from the small bank, informal decision-making model, to a more data-centric, formalized model. In this regard, there are likely many fringe expenses that are a result of this culture shift in terms of how we run our business. For the sake of the project, however, I've accounted for expenses driven by the individuals who are at the heart of enforcing this change throughout the organization.

        In terms of direct expense on an annual basis, this has amounted to $379,527; ($2,030,179 in salary * 15% of project time allotted for key contributors) + ($75,000 in annual consulting expense). This accounts for the salaries of 12 project participants identified as key contributors plus the annual cost of a consultant Dime has hired to assist in guiding the process. The criteria for being identified as a key contributor to the project effort includes being a liaison with our hired consultant, Temberton, and the dedication of at least 15% of annual time to the specificities of the Customer Profitability project. The 12 identified employees across the organization are as follows:

- The entire Data Analytics team (3 members in total - $445,625 annually * 15%)
- 5 of 7 employees on the Marketing team (5 members in total - $839,554 annually * 15%)
- Two-thirds of the Strategic Planning group (2 members, myself included - $160,000 annually * 15%)
- The Director of Strategic Planning – overseeing the Data Analytics & Strategic Planning Groups ($320,000 annually * 15%)
- The Director of IT Business Relations ($265,000 annually * 15%)

        As I've described above, due to the large-scale undertaking of a project of this magnitude, we've only just gotten the pieces of the profitability modeling together after redoubling efforts to understand our customer base in greater detail through the development of our Customer Metrics framework, and believe that a full 12 months-worth of evidenced based observation is necessary to project the potential impact of our efforts. That having been

said, we have established targets based on the last 6 months run rate for net income increases between the two prongs of the larger project; the Customer Metrics Framework and the enhancements to Customer Profitability modeling, set at 5%.

From the Customer Metrics perspective, with more fine-tuned reporting and an understanding of our customer base (i.e. what customers are using what services/products), we expect to see a 5% increase in below the line income, or income recognized after net interest income, from the Customer Metrics-Tracked services, as shown below in Fig. 10.

Fig. 10

DIME in thousands	Actual Income Statement Trend (000s)					
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
ACH FEES	10	10	10	10	10	10
BBC FEE INCOME	6	6	6	6	5	5
BBC WIRE TRANSFER FEES	57	57	62	59	59	61
FOREIGN WIRE EXCHANGE FEES	8	7	10	16	15	11
LOCK BOX INCOME	1	-	3	-	0	0
MASTERMONEY DEBIT CARD INCOME	381	355	338	363	365	312
MERCHANT CHARGE PLAN	98	105	72	73	54	56
MERCHANT EQUIPMENT	(0)	(0)	(0)	(1)	(0)	-
REMOTE DEPOSIT CAPTURE	18	18	17	18	17	17
WIRE TRANSFER FEES	134	123	125	125	161	116
Total	**713**	**679**	**640**	**667**	**686**	**587**

Total 6- month income: Customer Metrics-Tracked Services: 3,973

Annualized 6-month run rate: $7,881

Given our fine-tuned customer metrics reporting in the way of customer base understanding and the newly developed No Service Customer, Single Service Customer, Non-checking Customer, Customer Migration, and New Checking Customer Referral Opportunity Analyses and reporting, we believe that we can increase net interest income to $8.275 million (or 5%) from the current annualized 6-month run rate level we've seen. There are obvious challenges, especially the Durbin Amendment legislation which will impact Debit card income which will take effect in July 2022 for Dime, but given our preparation in lieu of this impact coupled with our Customer Metrics framework development, we are confident we have an understanding of

strong noninterest income offsets, especially given our deeper understanding of direct and indirect noninterest expenses.

Regarding our Net Interest Income (or that resulting primarily from the difference between loan interest income and deposit interest expense), we are also targeting a 5% increase given the enhancements made to Customer Profitability modeling and more fine-tuned enhancements to new loan and deposit price targets given their impact to ROAA and RAROC. At present, our 6-month run rate for net interest income on loans and deposits is $173.5 million, as shown in Fig 11 below:

Fig. 11

DIME in thousands	Actual Income Statement Trend (000s)					
	Aug-21	**Sep-21**	**Oct-21**	**Nov-21**	**Dec-21**	**Jan-22**
Total Interest income (Loans):	30,426	30,306	30,256	29,256	29,789	29,445
Interest Expense:						
Interest bearing checking	126	112	109	168	166	135
Money Market	515	391	365	395	327	323
Savings	65	39	45	45	31	71
Certificate of deposit	504	445	432	392	387	363
Total Interest expense:	1,210	988	951	1,000	910	892
Net Interest Income:	29,216	29,319	29,305	28,256	28,879	28,553

Total 6-month Net Interest Income (Loans & Deposits):	173,527
Annualized 6-month run rate:	**344,224**

Between the enhancements to customer profitability modeling, better understanding and direction for Dime's customer base, and the concession that high-rate driven consumer deposits will consciously be run off, we also believe that we can increase the annualized 6-month run rate to approximately $361.4 million (or an increase of 5%) on an annual basis.

Non- Financial Impact

The overall effort in developing the Customer Metrics framework as well as working towards a comprehensive profitability model has fostered a high level of positive collaboration across many functional areas of the bank (Strategic Planning, IT Operations, Marketing, Data Analytics, etc.). While this finding is qualitative in nature, I believe it makes its way to driving the bottom-line number. This level of collaboration equates to an effective use of resources which ultimately driving efficiency – a financial measure that is at the forefront of assessing bank profitability. If a bank proves to be more efficient through collaboration, then one can

draw the conclusion that it will cost that company less to gain more (i.e. they have to spend X cents less to make $1 – the underpinnings of a bank's efficiency ratio).

Having proved that we already have a group of employees that can positively collaborate also provides a bright outlook in terms of future projects and endeavors the Bank may decide to take on.

The most obvious hurdle to overcome is garnering buy-in around a Funds-Transfer Pricing (FTP) approach to profitability, particularly since this is something that only Legacy BNB production staff are accustomed to. The principal effort around achieving this buy-in will first be around getting buy-in from executive management. If this can be achieved with relative ease, then the rest of the organization should easily follow suit. Efforts have been made along these lines to develop FTP walkthroughs for executive level staff that can then be disseminated throughout the entirety of the production staff once successfully executed. The success of implementing the enhanced profitability modeling framework is absolutely contingent upon achieving this executive-level buy-in.

Conclusion

In seeing the evolution of implementing the New Dime's Profitability Modeling Solutions from start to finish, I can say that the need for this update in terms of profitability modeling is really a function of Dime moving from a smaller community bank to a significantly larger institution given the merger. While still strongly committed to being community-oriented in nature, Dime's competition is made up of all regional and money-center banks from whom we are trying to win business. As we sit at ~$12B in assets and the only bank of our size in the area, we don't necessarily consider ourselves in competition with the Bank's in the $2B to $6B dollar range as much as we do the banks in the $20-$50B range. And with that, comes the need for more sophisticated modeling and pricing.

Despite this knowledge, at the outset of this project it was not immediately clear to me what "more sophisticated modeling and pricing" would look like. Now, in concluding the effort, I believe that taking the step back to better understand the customer base via the Customer Metrics framework was the real guide in driving the profitability enhancements. In actuality, we can tie the Customer Metrics framework into the profitability model, especially if we get it in a

database as intended. This ill allow for greater ease in customer migration reporting, the development of unique customer populations, and ultimately the ability to target advertisement campaigns to customer segments that we feel can drive us towards our goals as an organization. To this end, we've begun collaborating with the Marketing group on our customer profitability updates with strong camaraderie which will hopefully translate into stronger results.

Over the coming months to one year, the intention is to couple the routinely updated customer metrics outputs (monthly/quarterly) with any results coming out of profitability analyses. This way the customer profitability model can provide what customer population an existing customer is in today (by type – commercial/consumer/public, by product – multiple/single, by service – no service, single service, multiple service) to ultimately produce the existing customers profile as a Dime Customer given these identified metrics.

If implemented and executed correctly, achieving efficiency gains via net interest income/non-interest income increases and noninterest expense decreases leading to overall efficiency gains should be absolutely possible.

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