THE KAFAFIAN GROUP

Helping Banks Perform Better

REPLACING THE CULTURAL IMPERATIVE OF SHAREHOLDERS

Maximizing Mutuality Conference

June 2, 2021

Performance Measurement

Strategic Management

Profit & Process Improvement

Management Advisory

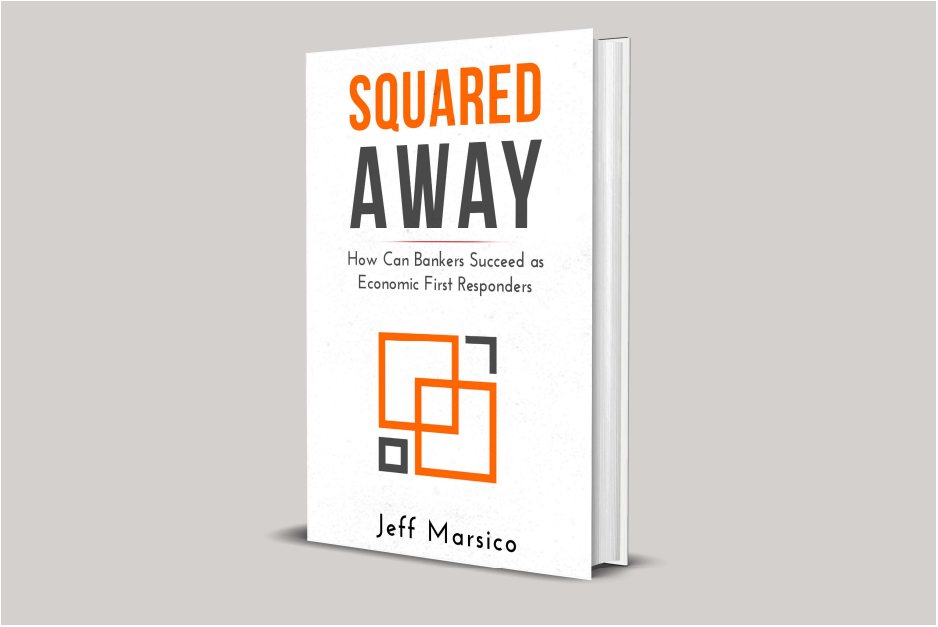
Financial Advisory

DISCLOSURE STATEMENT

FORWARD LOOKING STATEMENTS

This presentation is not considered complete without the accompanying oral presentation made by The Kafafian Group, Inc. ("TKG"). This presentation has been developed by TKG for the exclusive benefit of the Pennsylvania Association of Community Bankers members and may not be reproduced in whole or in part without the prior written consent of TKG.

The information contained in this presentation and attached exhibits, if any, have been obtained from sources that are believed to be reliable and is presented "as is". TKG makes no representations or warranties as to the accuracy or completeness of the information and disclaims any and all liabilities from the use of this presentation. TKG does not have any obligation to update any component of this presentation as the data are only current as of the date of this presentation. The recipient of this presentation should not construe this information as advice relating to regulatory matters, accounting and tax practices, legal matters or as a recommendation to invest in or purchase any form of investment security.



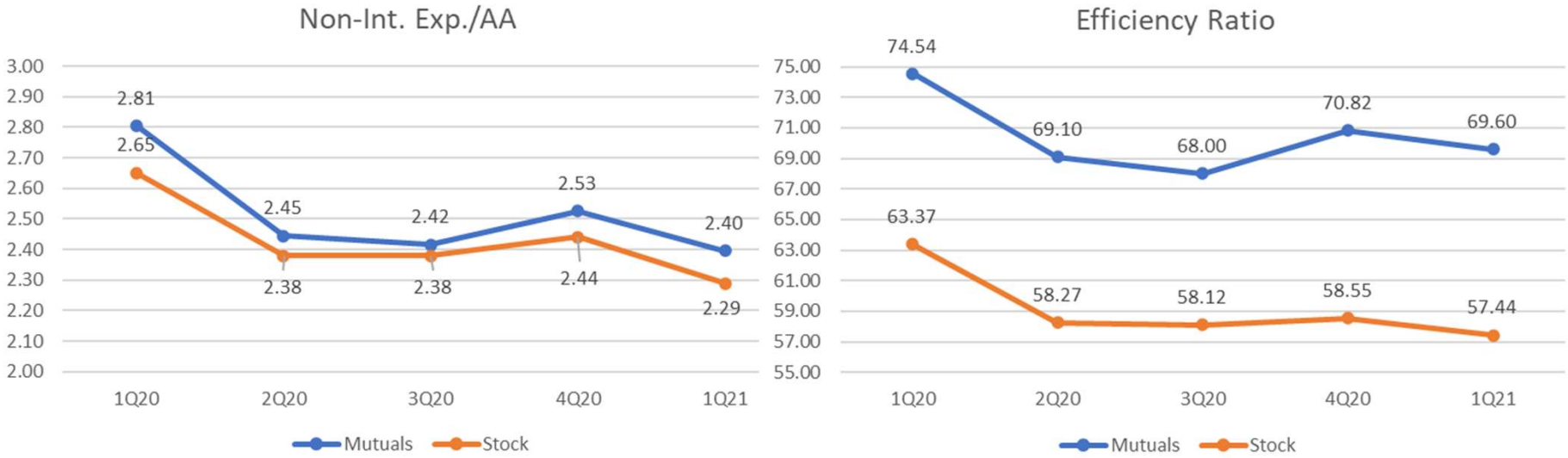
"The value of your financial institution is crucial to all of your stakeholders, not just shareholders. Nobody wants an institutional epithet that reads; Here lies ABC Bank. Meh."

~ From: Squared Away-How Can Bankers Succeed as Economic First Responders

FINANCIAL PERFORMANCE

MUTUALS VERSUS STOCK-OWNED INSTITUTIONS: $1B-$10B IN ASSETS

Stock owned financial institutions outperform mutually owned institutions in how they manage expenses and the revenue driven through their institutions.

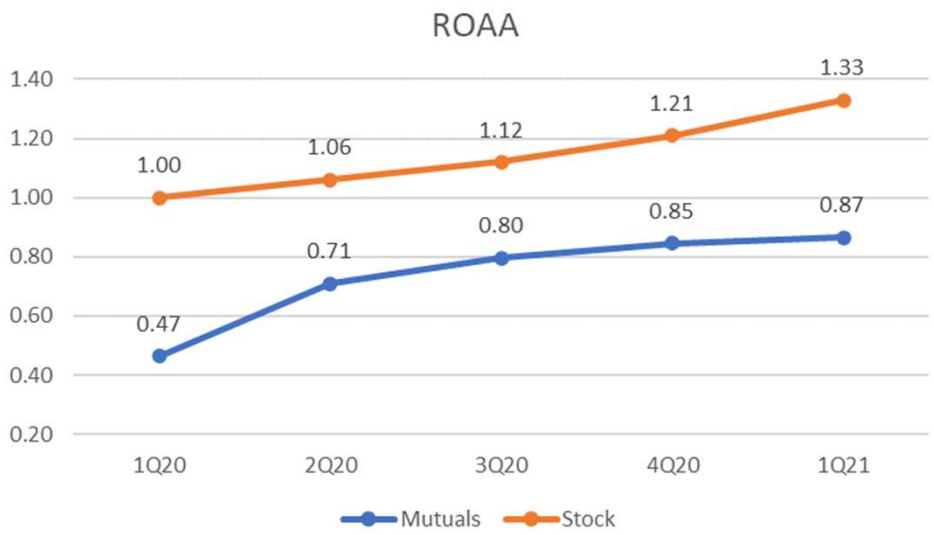


Source: TKG Analysis of the FDIC Quarterly Banking Profile data, S&P Global Market Intelligence

FINANCIAL PERFORMANCE

MUTUALS VERSUS STOCK-OWNED INSTITUTIONS: $1B-$10B IN ASSETS

Can improving your operating discipline generate greater resources to serve your primary stakeholders: employees, customers, and communities?



At the median asset size of $1.7B for mutuals for this measurement group, the 46 basis points difference in ROA equates to $7.9 million in net income.

Source: TKG Analysis of the FDIC Quarterly Banking Profile data, S&P Global Market Intelligence

PEOPLE FIRST!

SERVING A HIGHER PURPOSE

In a 2020 Survey, researchers from the Washington University in St. Louis found:

- Employees at organizations with higher purpose statements were prouder of working for their organizations and happier than other employees
- Organizational higher purpose statements were more effective when written down and when they emphasized society, customers, employees and stakeholders other than shareholders
- Sixty-five percent of people would give up a salary increase if they could fire their boss

Source: https://www.newswise.com/articles/survey-results-having-a-higher-purpose-promotes-happiness-lowers-stress

PEOPLE FIRST!

CAREER PATHS

BOK Financial Corp.

- 14% of open positions were filled by internal candidates.
- Implemented executive coaching for up-and-comers.
- Advanced leadership for mid-level managers.
- Management Training Program for newly hired or promoted employees.
- Series of online training and day-to-day bootcamps.
- Today, 30% of open positions filled internally.

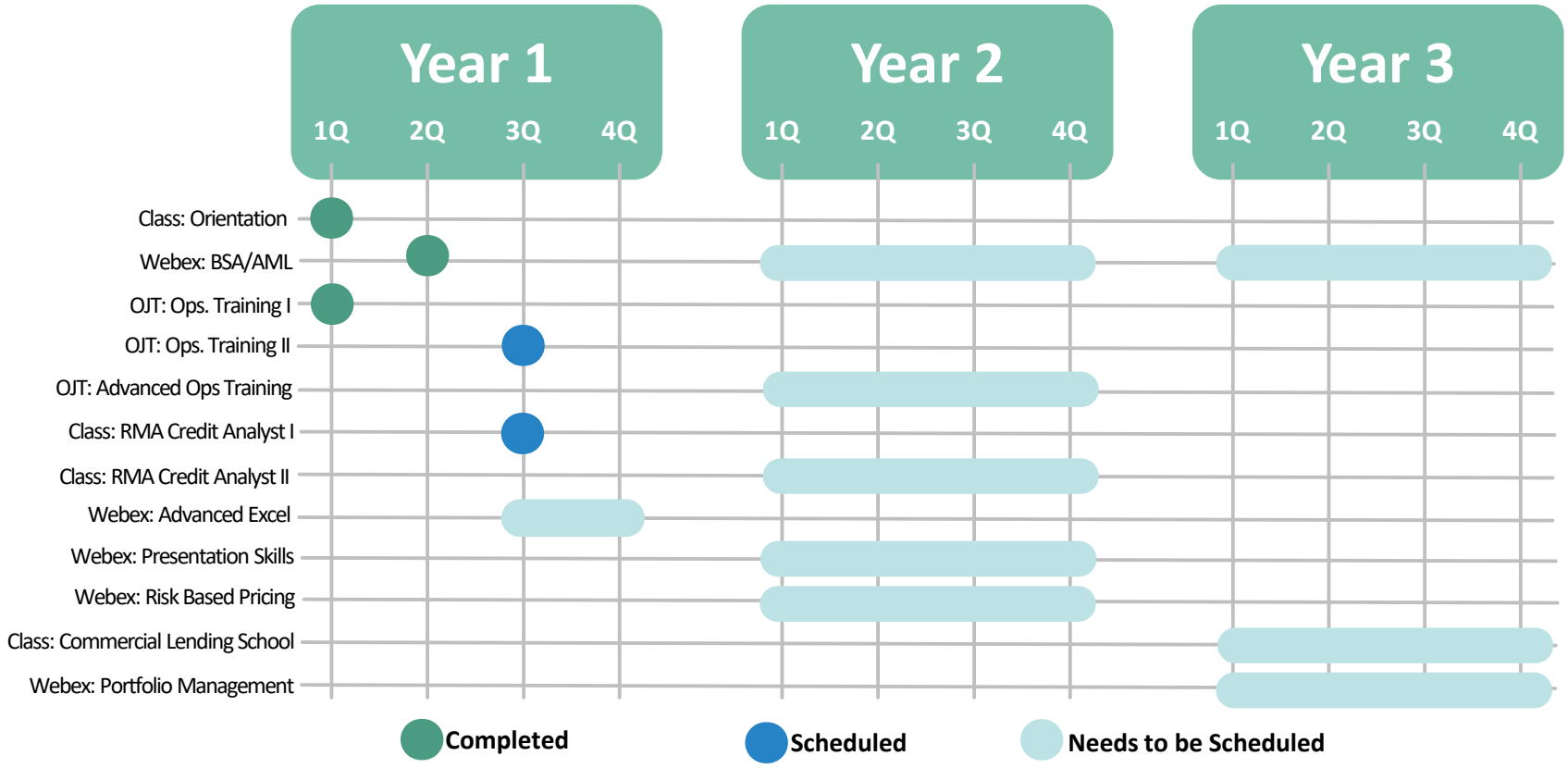
"I don't know what the right number is (open positions filled internally), but I know it's not that! (14%)"

- Steve Bradshaw, President & CEO

Source: American Banker

PEOPLE FIRST!

HIRING & DEVELOPMENT PRACTICES



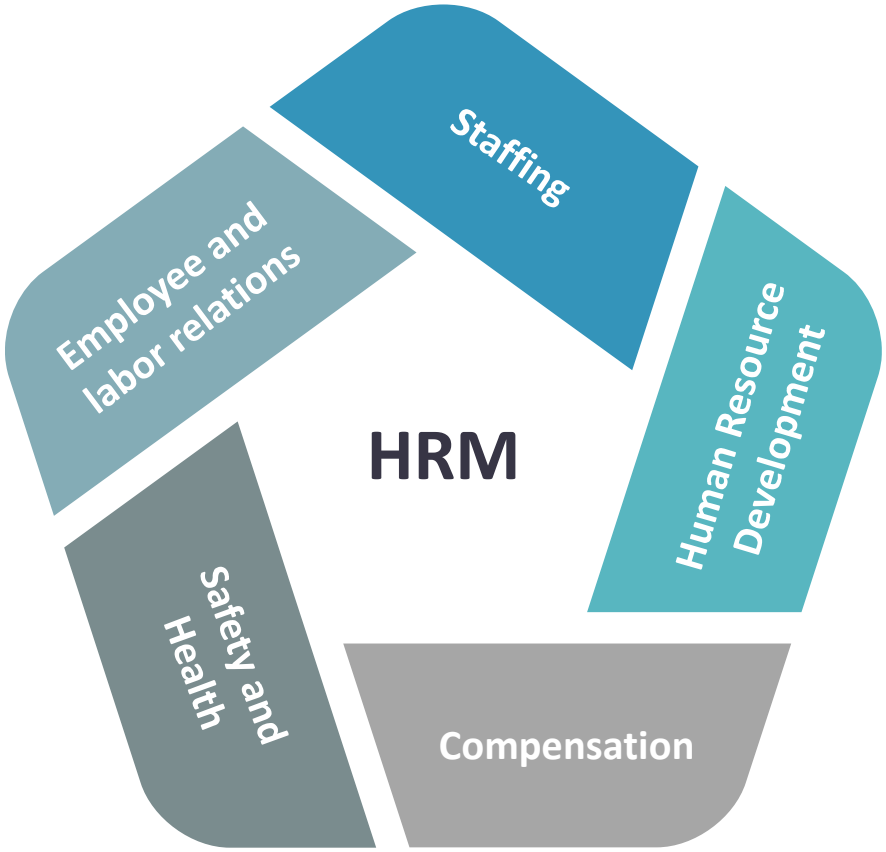
Source: The Kafafian Group, Inc.

PEOPLE FIRST!

STRATEGIC ALIGNMENT AND THE ROLE OF HUMAN RESOURCES

At your bank, HR…

- Is critical to strategy execution because employees are the focus of our success?
- Reports to the CEO?
- Is a payroll processor and an annual burden to complete BSA training?
- Is responsible for employee development and succession planning or a resource for functional managers who are responsible for employee development and succession planning?



Source: The Kafafian Group, Inc.

NO AMOUNT OF GOOD EXECUTION WILL HELP A BAD STRATEGY

STRATEGY OR LAST YEAR PLUS 5%?

Source: The Kafafian Group, Inc.

NO AMOUNT OF GOOD EXECUTION WILL HELP A BAD STRATEGY

STRATEGIC BETS

SuttonBank®
Old-fashioned Innovation

($000)	2000	2020
Total Assets	$190,502	$1,184,813
Summary Income Statement		
Net Interest Income	6,923	19,327
Provisions for Credit Losses	489	1,250
Total Noninterest Income	2,260	25,135
Total Noninterest Expense	5,941	21,584
Net Income	2,094	21,628
ROAA (%)	1.10	2.65
ROAE (%)	18.11	29.34

Source: S&P Global Market Intelligence

NO AMOUNT OF GOOD EXECUTION WILL HELP A BAD STRATEGY

STRATEGIC BETS

BNY MELLON

CBW BANK

incredible bank℠

Source: The Kafafian Group, Inc.

NO AMOUNT OF GOOD EXECUTION WILL HELP A BAD STRATEGY

CAPITAL DEPLOYMENT

		Current Period	Well Capitalized	Risk Buffer	Capital Required (%)	Capital Required $
	(Dollars in Thousands)					
1	Total Cash & Bals Due	$28,428	5.00%	0.15%	5.15%	$1,464
2	Investment Securities	339,217	5.00%	1.25%	6.25%	21,201
3	Net Loans & Leases	2,203,532	5.00%	2.35%	7.35%	161,960
4	Other Assets	82,441	5.00%	0.50%	5.50%	4,534
5	Total Assets	$2,653,618	5.00%	2.13%	7.13%	$189,159
6	Total Deposits	$2,229,590		0.90%	0.90%	$20,066
7	Fed Funds & Repos	24,104		0.20%	0.20%	48
8	Borrowings	144,424		0.25%	0.25%	361
9	Other Liabilities	13,221		0.00%	0.00%	0
10	Total Liabilities	2,411,339				20,476
11	Total Equity	242,279		Required Equity ---- > $209,635		
12	Total Liabilities + Equity	$2,653,618				
13	Total Equity (actual)	$242,279				
14	Total Equity (required)	209,635				
15	Buffer (deficit)	32,644				
16	Your Well Capitalized	7.90%				

Source: The Kafafian Group, Inc.

NO AMOUNT OF GOOD EXECUTION WILL HELP A BAD STRATEGY

CAPITAL DEPLOYMENT

Jeff-For-Banks
Easy to Use, Easy to Understand, Loan Pricing Tool

1	Hurdle Pre-Tax ROE	20.00%
	Inputs	
2	Loan Amount	$1,000,000
3	Loan Type[1]	583
4	Internal Credit Rating	5
5	Loan Duration (years)[2]	4.3
	Auto Inputs and Calculations	
6	Transfer Price (Cost of Funds)[3]	2.12%
7	Capital Allocation[4]	8.04%
8	Operating Cost Per Account[5]	$3,023
9	Operating Cost Per Account (%)	0.30%
10	Provision Expense (%)[6]	0.35%
11	Required Pre-Tax Profit	$16,080
12	Recommended Minimum Loan Yield	4.38%

1 Type Code that drives capital allocation from RAROC model
2 Derived by Loan Repricing, Duration, and/or Cash Flows
3 Provided by Finance based on Loan Repricing, Duration and/or Cash Flows
4 Capital Allocation determined by RAROC analysis
based on Type Code and Internal Credit Rating
5 Determined by Product Profitability or Industry Benchmarks
6 Determined by ALLL methodology

Source: The Kafafian Group, Inc.

WHO CARES ABOUT PRODUCTS AND MARKETING

MANAGE WHAT YOU MEASURE-BRAND

1	Institution	Oritani Bank
2	Parent	Oritani Financial Corp.
3	Ticker	ORIT
4	Total Assets ($000)	4,073,895
5	Market Capitalization (7/22/19) ($MM)	760.0
6	Yield on Loans - (NPAs/Assets)	3.87%
7	Yield on Loans - (NPAs/Assets) Over Median	-0.07%
8	Tax Effected Percent of Net Income	-4%
9	Cost of Interest Bearing Liabilities	1.38%
10	Cost of Int. Brng Liabilities Under Median	0.00%
11	Tax Effected Percent of Net Income	0%
12	Brand Value as % of Market Cap (8+11)	-4%
13	ORIT Aggregate Bank Brand Value ($MM)	(28.4)

Source: The Kafafian Group, Inc. analysis of S&P Global Market Intelligence information

WHO CARES ABOUT PRODUCTS AND MARKETING

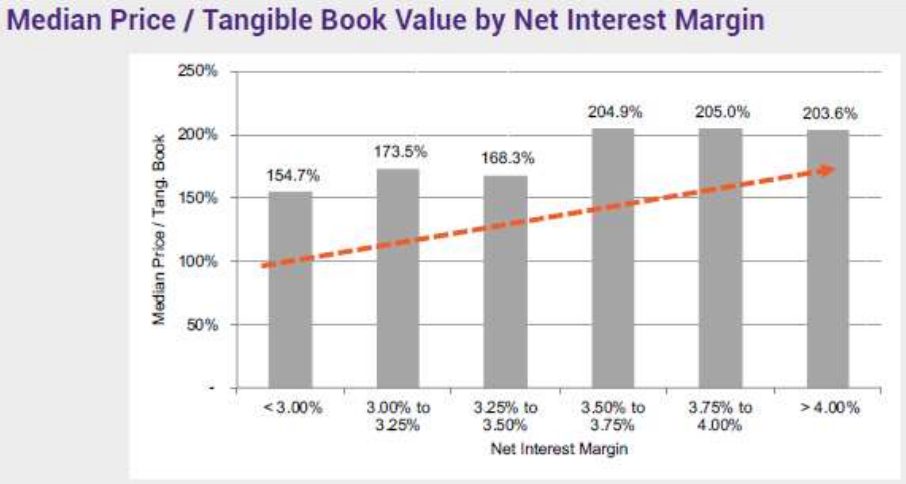
MANAGE WHAT YOU MEASURE-PRODUCT MANAGEMENT: RETAIN INTEREST CHECKING

		CP-4	CP-3	CP-2	CP-1	Current Period	Growth
1	Average Balance (000s)	$114,325	$117,987	$114,444	$115,470	$116,770	2.1%
	Income Statement (000s)						
2	Credit for Funds	$726	$759	$725	$700	$660	-9.1%
3	Interest Expense	29	30	30	31	27	-6.9%
4	Total Spread	697	729	695	669	633	-9.2%
5	Fee Income	599	674	659	658	600	0.2%
6	Total Income	1,296	1,403	1,354	1,327	1,233	-4.9%
7	Operating Expense	916	891	911	886	940	2.6%
8	Pre-tax Profit	$380	$512	$443	$441	$293	-22.9%
9	Number of Accounts	15,325	15,307	15,387	15,457	15,555	1.5%
10	Avg Balance / Acct.	$7,460	$7,708	$7,438	$7,470	$7,507	0.6%
11	Avg Cost / Acct.	$239	$233	$237	$229	$242	1.1%
12	Equity Allocation	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%
13	Equity Allocation ($)	$2,287	$2,360	$2,289	$2,309	$2,335	2.1%
14	Pre-Tax ROA	1.33%	1.74%	1.55%	1.53%	1.00%	
15	Pre-Tax ROE	66.48%	86.79%	77.42%	76.38%	50.18%	

Source: The Kafafian Group, Inc.

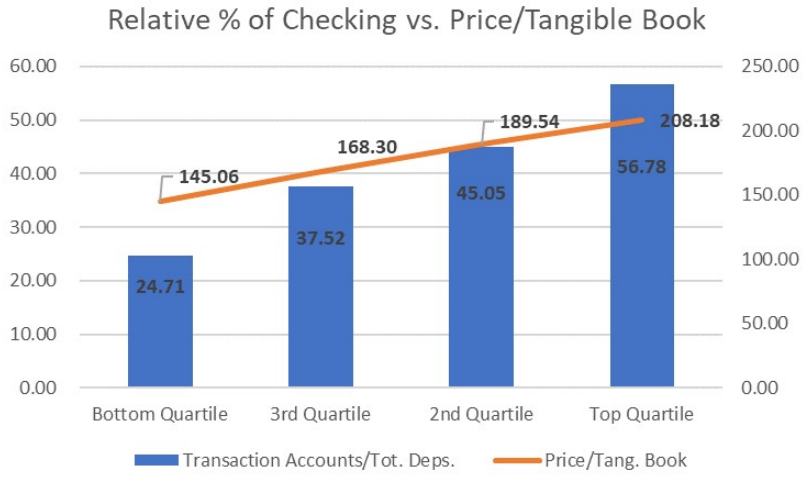
CREATE A VALUABLE FINANCIAL INSTITUTION

CORRELATION BETWEEN CERTAIN METRICS AND VALUE



According to Performance Trust, there was a positive correlation between NIM and price/tangible book, up to a point.

According to TKG, there's a positive correlation between relative % of checking deposits and price/tangible book



Source: The Kafafian Group, Inc. and Performance Trust Capital Partners (2018)

CREATE A VALUABLE FINANCIAL INSTITUTION

MEASURE WHAT YOU MANAGE: OPERATING DISCIPLINE

	Undisciplined	Disciplined
Lender Incentives	Based on volume and balance growth	Based on spread growth and portfolio ROE
Branch Incentives	Based on deposit growth, open/close ratios, cross-sell ratios	Based on deposit spread growth, and overall pre-tax profit improvement
Support Incentives	Based on no audit exceptions, hitting budgets	Based on speed to cure audit exceptions, opex as a percent of portfolio supported
Executive Incentives	Based on ROA or ROE compared to peer	Based on retention of keepers, internal promotions, higher purpose, profit improvement

THE HIGHER PURPOSE BANK

CORPORATE SELF ACTUALIZATION

THE KAFAFIAN GROUP, INC.

HELPING BANKS PERFORM BETTER

JEFFREY P. MARSICO

JMARSICO@KAFAFIANGROUP.COM

973.299.0300 X120

www.kafafiangroup.com

www.jeff4banks.com

www.jeffmarsico.com

Mr. Marsico is the President, shareholder, and founding member of TKG. His specialties include: facilitating the development of client strategies; mergers & acquisitions; profit/process improvement consulting engagements; profitability consulting; and regulatory order assistance.

As part of the strategic consulting team, Mr. Marsico has analyzed and facilitated over one hundred strategy development engagements for community financial institutions resulting in documented strategic plans to guide client employees and improve performance. He has negotiated, analyzed, and advised Boards of Directors regarding bank mergers and acquisitions resulting in whole institution and branch sale transactions with values in excess of $1B, including the first reverse merger-conversion where the converting thrift acquired a commercial bank.

Mr. Marsico began his banking career in 1985 and his experience includes: IT and Trust operations with Northeastern Bank of Pennsylvania (now PNC Financial Services Group, Inc.); retail branch management and strategic planning with First Maryland Bancorp (now M&T Bank Corporation); and financial institution mergers & acquisitions, consulting, and capital formation with Tucker Anthony Sutro Capital Markets (now RBC Capital Markets). He interrupted his banking career and served seven years as a Military Intelligence Analyst in the United States Navy, earning three Navy Achievement Medals, the Kuwait Liberation Medal, the Southwest Asia Service Medal, the Combat Action Ribbon, Sea Service Ribbon, and other various commendations.

Mr. Marsico is the author of *Squared Away-How Can Bankers Succeed as Economic First Responders* and serves on the faculty of various state banking associations' Executive Development Programs. He is frequently sought out by industry publications regarding the changes occurring in financial services and is a noted industry commentator via his blog.