THE FIRST OF LONG ISLAND CORPORATION
2022 SECOND QUARTER EARNINGS CALL

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Replay available at: https://www.cstproxy.com/fnbli/earnings/2022/q2

Operator [00:00:01]
Welcome to The First of Long Island Corporation's Second Quarter 2022 Earnings Conference Call. On the call today are Chris Becker, President and Chief Executive Officer, Jay McConie, Chief Financial Officer and Bill Aprigliano, Chief Accounting Officer.

Today's call is being recorded. A copy of the earnings release is available on the Corporation's website at FNBLI.com and on the earnings call webpage at https://www.cstproxy.com/fnbli/earnings.

Before we begin, the Company would like to remind everyone that this call may contain certain statements that constitute forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contained in any such statements, including as set forth in the company's filings with the U.S. Securities and Exchange Commission. Investors should also refer to our 2021 10-K filed on March 11, 2022, for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

I would now like to turn the call over to Chris Becker.

Chris Becker [00:01:51]
Thank you. Good afternoon and welcome to the first quarterly earnings call of The First of Long Island Corporation.

Our Company works on a mission of continually doing the right thing to help our customers, employees and shareholders succeed while being socially accountable to the communities we serve. We are committed to making a meaningful impact on stakeholders through ethical intent and strong business practices, and believe these efforts create long-term, sustainable value for our constituents. This week we rolled out a new webpage dedicated to showcasing Corporate Integrity at The First of Long Island Corporation.

Turning to our results, we believe the second quarter and first six months of 2022 positively reflect the strategic initiatives we have worked feverishly to implement during the past two years despite the pandemic. Some of these key initiatives include:

- Supporting the growth of our balance sheet with profitable relationship banking business.
    - Loans have shown three quarters of strong growth and deposit growth continues as our relationship teams have been successfully onboarding new customers.
    - Our recent loan growth has exhausted the Bank's excess cash position. Management is focused on future asset and loan growth being driven from increases in core deposits.
- A second initiative has been recruiting seasoned banking professionals with long-standing relationships.
    - Increasingly as bankers have become frustrated with the lack of responsiveness at their bank, they are seeking us out.
    - The word is getting out that we are the "go to" bank in the market, for both customers and bankers looking to make a change.
- A third initiative over the past two years has been optimizing our branch network across a larger geography.
    - We established a three-branch presence on Eastern Long Island in Riverhead, East Hampton and Southampton. At June 30, 2022, these branches had deposits totaling nearly $60 million dollars.
    - We successfully consolidated 14 branches with minimal customer disruption.
    - We are currently working on three branch relocations to much more visible and convenient buildings in Bohemia, Port Jefferson and Melville.
    - We continue to look for appropriate de novo branch locations to expand our geography.
- A fourth initiative has been our new branding and a "CommunityFirst" focus to improve name recognition and enhancing our website and social media presence. We celebrate the Bank's 95th anniversary on October 1st of this year we have been using that milestone as the catalyst for our marketing in 2022.

- Finally, we have been working on moving to a new administrative space in Melville to support our growth. I am pleased to report that move was completed in the second quarter. Also I am happy to report we just entered a conditional contract to sell several buildings in Glen Head.

While these initiatives have been successful and helped produce our best six-month performance in the Company's history, we do see some headwinds in the second half of 2022.

Deposit customers are starting to demand higher rates and term borrowing rates are generally well north of 3%, putting pressure on our net interest margin. We anticipate the margin could decline over the second half of 2022. How much depends on, among other things, the number and level of Fed moves.

The mortgage pipeline is at $125 million, which is down from an average of $164 million from the prior three quarters. We are starting to see customers rethink real estate deals in this high rate and inflationary environment. We currently anticipate new loan originations in the second half of 2022 will be lower than the first half of 2022.

There could be pressure on fee income as the Bank recently revamped its consumer overdraft charges by:

- Instituting a grace limit of $50 where there will be no charge.
- Reducing our overdraft charge from $38 to $15 for overdrafts over $50.
- Charging for one item, not multiple items.
- Eliminating the daily charge for remaining overdrawn.
- Eliminating the charge on returned items.

These changes will be effective August 1, 2022.

Jay McConie will now take you through some highlights of the second quarter and year-to-date. Jay.

Jay McConie [00:07:04]
Thank you, Chris.

Net income for the second quarter and six-months ended June 30, 2022, grew by 8.4% and 9.6%, respectively to $12.5 million and $24.6 million when compared to the same period last year.

The growth in net income was driven by another strong quarter of mortgage loan originations of $236 million bringing total mortgage loans originations to $497 million for the year. The weighted average rate on new mortgage loans continues to improve and was 3.51% for the quarter and should increase significantly as our current loan pipeline of $125 million has a weighted average rate of 4.40%.

The strong loan originations over the past two quarters increased our period end total loan balance to $3.3 billion, an increase of $230 million or 7.4% when compared to December 31, 2021. Commercial and Industrial loans were $108 million at June 30, 2022, an increase of $17.7 million or 19.5% compared to December 31, 2021, and is a key part of our strategic initiatives as we continue to grow our relationship business and further diversify our portfolio.

Our net interest margin for the quarter was 2.97% an increase of 26 basis points when compared to the same quarter last year. The improvement in our margin was due to the following factors.

- First - Reinvestment rates on mortgage back securities have improved and are currently in the 3.75% to 4.40% range depending on average life and duration.
- Second - The $119 million floating rate corporate bond portfolio, which reprices quarterly based on the 10-year swap rate, continued to improve with the increase in long-term rates.
- Third - The cost of funds on interest bearing liabilities improved by 16 basis points as the bank was able to maintain the cost of funds on its $1.7 billion Savings, Now and Money market deposit portfolio at 18 basis points.
- Fourth - The maturity and downward repricing on certain brokered time deposits and Federal home bank advances over the past year.
- And finally - The average balance on non-interest-bearing checking accounts improved $140.9 million or 11% to $1.5 billion.

As Chris mentioned in his remarks, customers are starting to demand higher rates. The pressure to increase deposit rates could intensify with the Federal Reserve Bank just announcing another 75-basis point increase in the Fed fund funds rate at their July meeting and remain on target to increase that rate to between 3.25% to 3.50% by the end of 2022.

Current wholesale funding costs are near 3.50% on all terms between six months to five years as the yield curve continues to flatten. A flattening or inverted yield curve could

result in downward pressure on both net interest income and margin as our ability to delay increasing deposit rates on non-maturity deposits becomes more difficult the longer the duration of the rising rate cycle. Additionally, our ability to further increase the yields on interest earning assets could be limited to offset our rising funding costs if the yield curve remains flat or inverted for an extended period.

Moving on to asset quality, the Bank's non-accrual loans were just $260,000 on June 30, 2022, and we have had $125,000 in net charge-offs during the current year.

We had a provision of $726,000 for the quarter, which was mostly attributably to loan growth partially offset by lower historical loss rates. The Bank's reserve coverage ratio was 93 basis points on June 30, 2022, a decrease of 3 basis points from 96 basis points on December 31, 2021.

While the banking industry released reserves during 2021 and the first quarter of 2022 due to improving economic conditions as the COVID pandemic waned, current inflation rates and aggressive tightening by the Federal Reserve as well as a slowdown in GDP could see this industry trend reverse in coming quarters. Management is cognizant of these economic headwinds and has not relaxed our lending standards during this period of loan growth.

Moving on, non-interest income increased $695,000, excluding $606,000 in gains on sales of securities in 2021 for the six months ended June 30, 2022. As noted in our earning release the increase was due to a final transition payment of $477,000 from LPL financial for the conversion of the Bank's retail broker and advisory accounts. The increase includes higher fees from a pick-up in debit and credit card activity and additional income from Bank Owned Life Insurance as we purchased an additional $20 million in December 2021. We currently anticipate a run rate of approximately $3.0 million per quarter for the second half 2022.

Non-Interest expense came in at $16.4 million for the second quarter an increase of approximately $600,000 when compared to the same period last year and the three months ended March 31, 2022. As noted in our earnings release the increase in non-interest expense was due to higher salary and benefit costs as open positions were filled during the quarter, higher incentive costs due to loan origination volumes and additional occupancy costs related to the relocation of our new corporate office location. We currently anticipate a quarterly run-rate of approximately $16.7 million per quarter for the second half of 2022.

Our priorities on capital remain to grow the balance sheet profitably, pay dividends to our shareholders and when appropriate repurchase shares.

During the quarter, we bought back approximately 286,011 shares at a price of $18.49. We have approximately $23 million remaining in our current authorization and we anticipate this program could continue during the second half of 2022 given our strong leverage ratio of 9.8%.

In addition, on July 1, 2022, we announced the declaration of second quarter dividend of $0.20 per share, which represents at 5.3% increase over the dividend paid in the same quarter last year.

Finally, we anticipate our tax rate for the remainder of 2022 to be approximately 20%.

With that I turn it back to our operator for questions.

Operator [00:13:25]
Thank you. Our first question for today comes from Alex Twerdahl from Piper Sandler.

Alex Twerdahl
Hey, good afternoon guys.

Chris Becker
Hey Alex, how are you?

Alex Twerdahl
I'm good, thanks. Nice to hear the first earnings call here. I wanted to ask a couple of questions that are follow-ups to your prepared remarks. First off, Chris, I think you mentioned that the fairly strong loan growth that you've seen over the last couple of quarters is likely to abate a little bit in the second half of the year. But I noticed that the mix shift is a little bit different this quarter and you actually put out a bit more residential relative to the commercial real estate and I'm just curious if those comments apply to the overall portfolio or just to the commercial real estate portfolio and maybe you can make up some of the excess with a bit more on the resi side.

Chris Becker
No, it's actually both portfolios, the residential side, because of the rate increases. Obviously, you're seeing refis dry-up on that. Also, the very high housing prices, I think, is

keeping some people on the sidelines combined with the high-interest rates. So you're seeing both pipelines. We give you a total pipeline number, but both pipelines are reducing.

Alex Twerdahl [00:14:49]
Okay. And then I know that you guys have brought on a number of new bankers over the last couple of years early across your market. I was wondering if you could kind of share with us where you are in that process of and I know you mentioned being the go-to bank for not just customers but also for bankers, but if there is a little bit of a pipeline that's built from some of these people coming on board and whether or not that could continue even in the higher rate environment.

Chris Becker
It is. We've added a middle market team of four, we rebuild our residential team, we added recently a South Fork team leader for the East End and the South Fork on the East End. And we've added some people to both our Nassau and Suffolk teams. And that business has been good as I indicated in my comments, they're onboarding new customers, focus on relationships, bringing in commercial deposits, lines of credit, our line utilizations have been up a little bit. So that business has been good. That's a smaller percentage of our portfolio, but it is growing. I think when you look at the slowdown, it's related mainly to the mortgage business. So, I will say, the CRE business, multifamily, residential mortgages, our momentum is pretty good on the CNI side.

Alex Twerdahl [00:16:29]
Okay, great. And then just another question for me. I think you mentioned you're selling some buildings in Glen End and is that going to have any impact on gains or book value or anything like that in the third quarter?

Jay McConie
Right now we're not going to disclose the financials of the contract, but those properties, Alex, back at 12/31 we did in our Q this does is available for sale and so any property would have been reduced to mark to market there. So they're carried at that cost.

Alex Twerdahl
Okay. Great. Thanks for taking my questions.

Chris Becker
Thanks, Alex.

Operator [00:17:15]
All right. Our next question for today comes from Chris O'Connell with KBW. Please proceed with your question.

Chris O'Connell
Hey. Good afternoon.

Jay McConie
Hi Chris.

Chris Becker
Good afternoon, Chris.

Chris O'Connell
To order to start on the deposit comments around deposit rates kind of increasing going forward, maybe quantifying where you guys are at deposit rates now or where you think you're going to be and moving rates to in the third quarter or any data assumptions that you might be using for this cycle.

Jay McConie
It's Jay Chris, how are you?

Chris O'Connell
Good. Hey Jay.

Jay McConie
We're not going to disclose data assumptions. The reason why we kind of discussed some of those things in our opening remarks is that the bank is liability sensitive. Traditionally been that way with having a little bit more longer duration fixed assets and a little bit less seen eye portfolios as other commercial banks. So right now, looking at an increase of, say, 100 basis points of shock, we're probably about liability sensitive of, about -3% or so

up 100 basis points, which we think is kind of the most likely scenario being where we are with the Fed and hopefully where we think they have to go from this point forward based on their guidance of where the Fed funds target rate would be.

Chris Becker
And Chris, this is Chris. We are specifically on rates on our CD rates pretty much from one year out through five years were at 2% and 2% plus on those rates. Our money market now and savings, like most banks, those rates remain low. You see some pressure on that both from business and consumer and also municipal customers. And those rates are starting to move up quickly. You can see some rates in those accounts now north of 1%.

Chris O'Connell [00:19:48]
Got it. That's helpful. And for the securities book, what's the duration on the overall book? And then is there any plans to move the securities book into loans and makeshift a little bit going forward? Or do you expect that to hold more or less kind of flat going forward?

Jay McConie
Well, Chris, it's Jay. The average life on the portfolio is probably right around five years. And when you look at our liquidity levels, when security rates were like 1% or so, we really kind of looked at it and said we want to lower the security portfolio and put more money into loans. Now with rates where they are and in the NBF sector, we can kind of get a little bit above a four handle. We're actively looking to put a little bit more money into the security portfolio. Really just replacement as securities roll off we're going to replace and go into and keep it around flat, whereas maybe a year ago, we're letting those securities portfolios, security cash flows go into loans. So it should be fairly flat for the rest of the year.

Chris O'Connell [00:21:13]
Got it. That makes sense. And on the opening comments, I think you said that the new origination yield was on the pipeline into 3Q to leave it at a four-handle on it. But I missed it. Do you mind repeating that?

Jay McConie
Yeah, it's right around 440. The average weighted average yield. Up from what was booked in the first quarter was about 350.

Chris O'Connell [00:21:46]
Yeah. Really nice pick up there. Great. And on the fee income I appreciate the guidance there. They're just trying to figure out the parts for the NSF fees. What do you think that that impact in and of itself is going into the third quarter?

Chris Becker
This is Chris. The change in the program on the consumer side, and we didn't change anything on the business side, but on the consumer side, on an annualized basis, that could be approximately $200,000 annually. Now we've been kicking up some momentum on the debit card interchange fees and some service charges, things like that that were down during the pandemic. So that's why we're still kind of guiding the quarterly non-interest income number to be fairly consistent, but those are the impacts of the pieces.

Jay McConie
And Chris, it's Jay. Also, I put in my remarks, we purchased an additional 20 million of BOLI. So, that incremental income will help to offset somewhat if there's a loss in overdraft fees. And again, the BOLI portfolio while it increases as the cash render value goes up each quarter so you gain a little bit more income just through the cash surrender value increasing. And then as interest rates go up, it's part of the insurance company's portfolio. You should see the yield on that also contribute. So we do think there is some tailwinds to allow the BOLI income to also increase and complement the credit card activity as well.

Chris O'Connell [00:23:39]
Great. That's helpful. And on the expense side, again, appreciate the guidance there. Very helpful. How are you thinking about there's a lot of moving parts you guys mentioned between the client head sales, the new ads in space, potential the novo ads and, you know, some other relocations going on. How are you thinking about the growth as you go into 2023? I mean, do all of these kind of moves in terms of the building and space management wash out on a net basis or does it put you at a little bit of a higher growth rate or lower growth rate going into the next year?

Jay McConie
Yeah, Chris, it's Jay. I mean I agree. We have done a lot and we kind of break it down to two pieces. If you remember last year we closed about, we had two branch location

closures and that saved us probably about $1,000,000 in annual non-interest expense. And if you look at it from that standpoint, we've also added the East End locations, two or three locations there. And we also, as Chris alluded to, put on some of the lending staff. So we kind of look at those two kind of offsetting each other.

And then when you look at the move to Melville with a new location here and the cost of that we look at, and while we announced that we have a contract to sell some of those buildings, once those buildings are liquidated and we're out of those over to here, that should be fairly cost neutral. So, all in all, while a lot of moving parts with the guidance we're at 16 five this quarter. We have it up a little bit around 16 seven, which is just really kind of a bull headcount run.

And also, as everybody sees, we have vendors too, high inflationary rates, we're negotiating with all our vendors. But, they're very cognizant that with deposit pricing pressure that we have to maintain expense levels fairly flat. So that's why we gave that guidance. But our goal is with all those moving parts is there they're pretty much neutral. And it's part of our planning. As we do something, we're always saying, okay, we want to improve here. How do we cut costs here to try to keep that and maintain expense discipline?

Chris O'Connell

Yeah. Absolutely. Makes sense. All right, great. That's all I had. Thanks for taking my questions.

Chris Becker

Thanks Chris.

Operator

Thank you. This concludes our question-and-answer session. I'll turn the floor back to Chris Becker for some final closing comments.

Chris Becker [00:26:30]

Thank you. I want to thank everyone for their attention and participation on the call today. Once again, we're very pleased with the quarter and look forward to providing additional updates in the coming quarters. Enjoy the rest of your day.