THE FIRST OF LONG ISLAND CORPORATION
2022 FOURTH QUARTER EARNINGS CALL

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Replay available at: https://www.cstproxy.com/fnbli/earnings/2022/q4

**Operator** [00:00:01]
Welcome to The First of Long Island Corporation's Fourth 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/2022/q4.

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** [00:01:39]
Thank you. Good afternoon and welcome to The First of Long Island Corporation's earnings call for fourth quarter and year-end of 2022.

The year marked our banking subsidiary's 95th anniversary. We celebrated the loyalty of our local markets with a "CommunityFirst" volunteerism program. Our employees donated over 500 hours of their time to aid local charities in fighting food insecurity, helping seniors, caring for animals and building housing. It was inspirational and I want to thank the entire First National Bank LI team for meeting our mission of continually doing the right things to

help our customers, employees and shareholders succeed while being socially accountable to the communities we serve.

I'm gratified to announce another year of record performance. Net income and earnings per share both set new Company highs in 2022 at $46.9 million and $2.04, respectively. The KBW Bank Honor Roll recognizes banks with more than $500 million in total assets that have reported consecutive increases in annual earnings per share in each of the past **ten years**. Stockholders should know that your company is on that list. We were also proud to be named to Piper Sandler's Small Bank All Stars in 2022, which recognizes companies with a market cap below $2.5 billion that out-perform the industry in growth, profitability, credit quality and capital strength.

Year-end and average total assets, loans and deposits all increased in 2022. Average noninterest-bearing checking deposits increased over 7% and averaged over 40% of total deposits during the year. We believe these numbers represent a true relationship-oriented bank.

I previously reported on the relocation of our corporate headquarters to 275 Broad Hollow Road in Melville earlier this year. During the fourth quarter we completed the sale of five Glen Head buildings and closed a freestanding drive-up ATM leased location. 2022 also included moving our Port Jefferson Branch to a new Main Street Village location, and we are nearing completion on a new Bohemia location on Veterans Memorial Highway for the relocation of that branch. As The First National Bank of **Long Island**, we were missing a presence on the East End of the island. We corrected that oversight by establishing a branch in East Hampton in late 2021 and a Southampton Branch in early 2022. Combined with our Riverhead Branch opened in 2020, we are making a name for ourselves on the East End. We have been fortunate to hire some of the best bankers in these markets.

Our team is dedicated to transforming this 95-year-old institution to a modern commercially focused bank. Our growing banking teams are bringing in relationships helping our Balance Sheet mix, our new branding is being complimented as fresh and inviting, our new website and social media presence continue to grow in terms of visits and impressions, our commitment to technology upgrades and cybersecurity investments are recognized by our employees and customers, and we are being acknowledged in the industry for our successes. We are moving forward while staying true to our history of strong

fundamentals that deliver results, including consistent loan underwriting criteria.

Looking forward, we see a challenging landscape in 2023.

- The Federal Reserve's increases in interest rates have not been at this pace in over 40-years putting downward pressure on the Bank's net interest margin. Our Bank's liability sensitive position makes us more susceptible to rising rates. Our net interest margin was 2.74% in the fourth quarter of 2022 but was 2.66% for the month of December. Our margin very likely will be lower than the December number in the first quarter and full year of 2023. How much depends on the Fed's future moves and competitive conditions. Jay will speak to our deposit betas.
- A political and regulatory message of removing so called "junk fees" is limiting the Bank's ability to charge for the fundamental services we provide. Progress in fee income always seems to be offset by competitive reductions. Noninterest income is currently projected at $2.5 million per quarter in 2023.
- At the same time, regulatory oversight continues to pile on operational costs related to third-party management, information security, ESG and climate change, among other areas, no matter an institutions size. Management efforts to create efficiencies through branch and back-office consolidations have kept expense growth in check and 2023 noninterest expenses should be in line with 2022 numbers. Noninterest expenses are currently projected between $16.5 and $17 million per quarter in 2023.

We have persevered through past challenges to remain a valuable franchise with strong capital, strong asset quality, a strong deposit base and dedicated directors, employees, customers and stockholders. I thank them all for their years of support and we remain committed to doing the right things for them.

Jay McConie will now take you through some highlights of the full year and fourth quarter. Jay.

**Jay McConie** [00:07:26]
Thank you, Chris.

As Chris mentioned, the Bank had record earnings of $46.9 million and earnings per share

of $2.04 in 2022. The Bank's return on assets and equity were 1.11% and 12.13%, respectively. Net interest income improved $8.9 million or 8.3% to $115.7 million and our margin increased 15 basis points to 2.89% in 2022 up from 2.74% the prior year. The growth in net income for the year was mostly attributable to a $300 million increase in average loans for the year, stable non-interest income of $12.4 million and a slight decline in non-interest expense of $1.1 million to $67.6 million for the year.

The Bank's asset quality remains excellent with no non-accrual loans on December 31, 2022, and our capital position remains strong with a leverage ratio of 9.83%.

For the year, the Bank originated approximately $656 million in mortgage loans with a weighted average rate of approximately 3.69%. Mortgage originations slowed to $63 million during the fourth quarter due to higher rates and less demand from consumers and businesses but the average rate improved to 5.44% and the yield on our C&I portfolio at the end of the year increased to 6.34%.

In previous quarters, the Bank reported a loan pipeline of committed, but not yet closed, mortgage loans. On September 30, 2022, that number was $68 million. On December 31, 2022, the committed, but not yet closed, mortgage loans were $51 million. Beginning this reporting period and going forward, we will report a loan pipeline consisting of issued letters of intent, loans in underwriting and committed, but not yet closed, loans. That number on December 31 was $127 million compared to $181 million on September 30, 2022. We believe our broader definition of the loan pipeline is a better indicator of loan demand and activity in the upcoming quarter. The Bank expects overall loan growth to be in the low single digits in 2023 given the increase in rates, concerns for a recession and the inverted yield curve.

Net income for the fourth quarter of 2022 declined $2.6 million when compared to the third quarter of 2022 due to a $3.1 million increase in interest expense primarily due to higher borrowing costs and seasonal deposit outflows from average checking deposits into interest bearing liabilities. During the first nine months of 2022, the Bank was able to lag increasing the rate it pays on non-maturity deposits. The Federal Reserve's aggressive push to increase the federal funds rate by 450-basis points since March 2022 and expectations they will continue to increase short-term rates to possibly 5.25% in the first half of 2023 has increased the cost of funds we pay on these types of deposits.

The Bank's cumulative deposit beta on non-maturity interest-bearing deposits through December 31, 2022, was 21%. The Bank's historical cumulative deposit betas on non-maturity interest-bearing deposits has been plus or minus 35%.

The cost on retail time deposits and wholesale funding also increased with the cost of funds on interest-bearing liabilities rising from 48 basis points to 123 basis points since September 30, 2022. The Bank has approximately $348 million in wholesale funding that matures during 2023 with a current weighted average cost of 2.28%. Based on the current interest rate environment, we anticipate using seasonal deposits inflows and monthly cashflows from our securities and loan portfolio in 2023 to repay a portion of our wholesale funding position.

The Bank is liability sensitive with approximately $410 million, or 10% of our interest earning assets, either maturing/repricing in 2023 and approximately $340 million, or an additional 8% of interest earning assets, in annual cash flows from securities and loans. These cash flows will be reinvested at current market rates or be available to repay wholesale funding. Management regularly analyzes potential balance sheet restructurings that could help improve our liability sensitive position.

The Bank's quarterly core non-interest income run rate, excluding one-time items, has been approximately $3.0 million over the past four quarters. We expect this run rate will decline to approximately $2.5 million in 2023. The decline is due to the non-service component of the Bank's pension expense.

The Bank's non-interest expense was $18.4 million during the fourth quarter, an increase of $1.4 million when compared to the third quarter. The increase was due to several one-time charges including a net loss of $553,000 on the disposition of premises and fixed assets relating to several of the Bank's former Glen Head locations, $531,000 in costs relating to the branding initiative in branch locations and $210,000 for two branch relocations. We expect non-interest expense to be $16.5 million to $17.0 million in 2023, flat when compared to 2022.

As we previously noted, the Bank moved its corporate headquarters to Melville in April 2022 in an effort to have a more convenient location for our customers and employees. Between the disposition of the Glen Head assets, the new Melville headquarters, and the various branch openings, closings and relocations, the Bank expects occupancy and

equipment expense to be lower in 2023 verses 2022.

As noted in our earnings release, the Bank repurchased 915,868 shares or $17.9 million in common stock in 2022. The Bank has approval to repurchase up to an additional $15 million in its outstanding plan.

Finally, we anticipate our tax rate for 2023 to be approximately 18.5%

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

**Operator** [00:14:27]
Thank you.
Our first question for today comes from Alex Twerdahl at Piper Sandler. Alex, you may ask your question.

**Alex Twerdahl**
Hey, good afternoon, guys.
**Jay McConie:** Hey Alex.
**Chris Becker:** Hi Alex.

**Alex Twerdahl**
Hey, first off, Jay, you went through the cash flows on the securities and expected deposit flows kind of quickly. Would you mind just saying those again?

**Jay McConie**
Sure, let me just pull those up. We have approximately 410 million or 10% of our interest earning assets that mature or reprice in 2023. And then based on prepayment speeds, we kind of Alex, what I like to do is I look at last year's full year annual cash flows, 2021, I look at 2022's, I look at estimates from our Darling system, and then I kind of look at our quarterly run rate. And based on that, I'm projecting about 340 million or about another 8% in interest earning assets from securities and long cash flows.

**Alex Twerdahl**
Okay. And are you able to give us a sense for the portion of that there might be loans that

would reprice higher, sort of like what kind of pickup you might potentially get?

**Jay McConie**
On actual repricing that reprice off of prime each quarter that's more about 289 or about 300 million in repricing that would come up. And those are the ones that are really repricing up with prime each quarter. So that would be the best indication.

**Chris Becker**
The remainders price off of typically the five-year Treasury plus a margin. So, it depends on when it was booked, it was booked five years ago obviously it would be the increase in the five year Treasury during that time.

**Jay McConie**
Right. So to clarify, 300 million is kind of low to a prime each quarter and about 100 million is based on career pre-loans that are coming up with a reset date.

**Alex Twerdahl**
Okay. And the reset date just depends on where I guess five years.

**Jay McConie**
Exactly. And a price off of that depending, but mostly would probably be off the five-year treasury, maybe some a little bit up to seven.

**Alex Twerdahl**
Okay, Got it. And then in terms of deposit flows, that might be expected early in 2023, can you give a sense or line of sight on any deposit inflows or outflows. And then maybe talk a little bit about the deposit strategy today.

**Jay McConie**
Yeah. Typically, like Chris said, for the year we saw interest bearing or DDA increase and we were very comfortable with that amount coming up. But right at the end of the quarter, right in December, we've always had kind of seasonal outflows and it was probably about

200 million for the fourth quarter. We've had some of it come back in and it usually comes back in throughout the first quarter and from there. So, we're looking at those seasonal inflows to come in and then try to use those as well as funds coming in from the cash flows we talked about both for loans and securities and use a portion of those to pay down wholesale borrowings and then also looked at to utilize some of for growth in securities and a little bit of growth in loans.

**Chris Becker**
And our deposit strategy continues to be building relationships with the with the loan teams that we've added or beefed up over the past three years. They continue to bring in new relationships. And, obviously, with that you get you get a percentage of DDA and you need to be competitive on the interest bearing deposit side.

**Alex Twerdahl**
Got it. And then, you know, I also just wanted to ask, you guys have always been very conservative on your credit underwriting. And, I'm not sure we're seeing a lot of cracks, at least visibly, in what's going on in the market with respect to commercial real estate, multifamily, those types of loans. I'm just curious, from where you guys sit, if there's anything that you're seeing out there that is starting to look like early indications of potential pain or anything that you guys are worried about. Any color would be helpful.

**Chris Becker**
We really haven't seen any cracks at this point. I would say in our most recent.. we do obviously a CRE analysis every quarter we look at market data, saw a very slight uptick in multifamily vacancies, but nothing that's causing us concern at this point.

**Alex Twerdahl**
Okay. Thanks for taking my questions.
**Jay McConie:** Thanks Alex.
**Chris Becker:** Thanks Alex.

**Operator** [00:19:33]
Thank you. Our next question comes from Chris O'Connell at KBW. Chris, you can proceed with your question.

**Chris O'Connell**
I was hoping to just get a little bit of clarification as to the fee guidance and where that's coming out of to start the year. I think you said 2.5 million a quarter for 2023. Is that an immediately starting at that level in 1Q23? And where's the variance, which line items is that coming out of the most relative to where we were in the fourth quarter?

**Jay McConie**
Right. Right. So Chris, we expect our core non-interest income and all the various items, obviously we have some going up, some coming down, but our core interest income is going to be about that two and a half million throughout the quarter. As Chris alluded to, we're seeing some pick up in like debit card, credit card activity and then we're anticipating some loss in NSF fees just because of regulatory and competition within the industry. The real reason for the decline is our pension. For the past four or five years, our net pension expense in our financials has been a credit to the to the bank, usually about $100,000 to $135,000. We get a net credit and part of that is in the non-interest income and part of it is in salary expense. They make you break out each piece. This year, our pension, we have a fully funded pension. The bank hasn't had to contribute for well over five six years to fund it, it's over 100% funded. But because of the decline in assets or the increase in interest rates and the decline in the fair value of the asset, the GAAP accounting requires you to amortize a loss and that the assets decrease more than the liabilities and that's causing the income on non-interest income going down to $2.6 million. And you divide that by four. So that's what's driving it's a noncash item. If interest rates decline and the funding position increases, you could see that kind of switch the following year. So it's a non-cash item that's really not related to the core business.

**Chris O'Connell**
Got it. So that's going to come out of the other fees line item for you guys. And then correspondingly, on the compensation expense for the most part.

**Jay McConie**

Yes, exactly. And we are getting some benefit in less salary expense. So I would look at it overall that we're going from $135,000, call it net credit to about a $1.4 million expense. So that's the actual overall impact. It's just that it's broken out in two pieces. And unfortunately, the decline in the return on assets and the amortization of this loss because of the funding position clauses that have to decrease non-interest income, two and a half million for the year.

**Chris O'Connell**

Understood. And on the expense side for the 16.5 to 17 million. Is there just you know, you guys have kind of, you know, a lot moving. You know, on the different, you know, branch relocations and openings and things like that. I mean, is there any particular cadence and start off the year, you know, at the higher end or the lower end in build or reduce throughout the year? Is there just any seasonality to that?

**Jay McConie**

I would say it's pretty consistent, maybe a little bit higher in the first quarter just because of payroll expenses and fico and so forth that kind of add up and maybe trending down. But but not anything significant.

**Chris O'Connell**

Got it. And just going back to the margin discussion, I appreciate the guidance as to where you guys were in December, and how it's going to trend, for the first part of the year lower. And any sense as to, assuming to call it two more hikes here and then a pause as to the trajectory of the NIM or where, it could bottom either on timing or on or on the level?

**Jay McConie**

Yeah, based on the volatility and the pace and increase, it's hard for us to provide that number. That's why we tried to kind of easier that you know, for the quarter that then was 274 for a month it was about 266. Like we said, our beta year to date is 21%. The way we come up with our beta is we just take since our low point, which was probably in June for

non maturity deposits, we take that increase, from that point through December and we just simply divide it over the where the Fed funds rate is now, which is 450 and we get 21%. And historically when you look back probably since 2000, when we look at deposit beta studies, obviously the Fed's going to pause, but deposits still continue to increase. So when you look at the full rate cycle, when they stop and then kind of deposits, you know, kind of reach their, you know, seek their level in that current rate cycle, it's been probably plus or minus 35%. So, you know, if you look at where Fed funds is going to wind up and you kind of take 35% of that historically, that's where we've kind of ended up. But we are we do caution that the pace magnitude, the shortness of the increase, could cause that to be a little bit higher. And a lot of those previous rate cycles, the Fed funds went up 25 basis points over a two, two and a half year period and inflation was below 2%. You know, here we're, you know, a 40-year high inflation and they went up 500 basis points in under a year. So that's why we're cautious on giving guidance, we're trying to give you as much pieces as we can and, help you out with that.

**Chris O'Connell**

Yeah, absolutely. And then lastly, you guys have, you know, a bit left here on the buyback authorization and you are pretty well capitalized. Loan growth is kind of slower from a macro perspective. How are you guys thinking about, you know, the utilization of the buyback on a go forward basis?

**Jay McConie**

Yeah, we're going to be in the market from time to time in a quarter. We might be a little bit more cautious in the first half. Just we want to kind of see how this kind of plays out with the Fed. There's a little battle going on between the Fed raising rates to between five and 6%. When you see economists, when you look at the Fed funds futures rate and they have the short end kind of coming down and you can see the inversions get a little bigger with the ten year trading in that three and a half, you know, down maybe 75 basis points over the last quarter. So we're getting more of an inversion and more of a disconnect and whether it's a soft landing or a hard landing. So we're going to be a little bit cautious maybe in the first half just to preserve capital and then kind of see how things play out and then might be a little bit more aggressive in the second half.

**Chris O'Connell**

Great. Thanks, Chris and thanks Jay. Appreciate the time.

**Jay McConie:** Thanks.

**Chris Becker:** Thank you

**Operator** [00:27:20]

Thank you. Our next question comes from Nicole Julia Galindo from American Capital Partners. Nicole, you may proceed with your question.

**Jay McConie**

Any question Nicole or are we okay? Okay.

**Operator**

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

**Chris Becker**

Thank you for your attention and participation on the today's call. We are very pleased to present the results of another record year. We look forward to talking to you at the end of the first quarter. Have a great rest of the day.