THE FIRST OF LONG ISLAND CORPORATION
2023 THIRD QUARTER EARNINGS CALL

OCTOBER 27, 2023 – 2:00 p.m.
Replay available at: https://www.cstproxy.com/fnbli/earnings/2023/q3

Operator [00:00:00]

Welcome to The First of Long Island Corporation's Third Quarter 2023 Earnings Conference Call. On the call today are Chris Becker, President and Chief Executive Officer, Jay McConie, Chief Financial Officer and Janet Verneuille, Chief Risk 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/2023/q3.

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 2022 10-K filed on March 9, 2023, as supplemented by our 10-Q for the quarter ended March 31, 2023, 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 [00:01:37]

Thank you. Good afternoon and welcome to The First of Long Island Corporation's earnings call for the third quarter of 2023.

I am pleased to report that third quarter net income of $6.8 million and earnings per share of $0.30 were consistent with the prior quarter. Most importantly, our net interest margin only decreased four basis points from the previous quarter after averaging declines of 27 basis points over the prior three quarters. Assuming the Fed is done raising short-term rates, which may not be the correct assumption, internal projections anticipate that the margin should bottom out over the next two quarters.

Average total assets, average total loans, and average total deposits all increased when comparing the third quarter of 2023 to the linked quarter. These averages all decreased during the second quarter of 2023 after the shock of some large regional bank failures. Our wholesale funding consisting of Federal Home Loan Bank borrowings and brokered deposits remained consistent from the end of the second quarter to the end of the third quarter. Overall, wholesale funding is down $28 million from the prior year-end.

Commercial customers continue to consider higher yielding options, such as short-term Treasuries, for funds in excess of their normal operating needs. Consumer customers looking for higher rates are generally satisfied with our certificate of deposit offerings, but some have moved money to our First Investments program or other non-deposit investment providers. While our banking teams have been able to replace funding that has moved out of deposit accounts with new relationship-based deposits, net growth remains challenging in the current environment.

Expense management is a continued focus. We recently announced another branch consolidation coming in December of this year. Our Manhasset Branch is closing and consolidating into our Great Neck Branch, which is approximately two miles away. This branch closing with be the 15th under our ongoing branch optimization strategy. In prior consolidations we retained over 90% of the deposits.

Earlier this year we adjusted branch hours including eliminating Saturday hours in several branches that did not have justifiable activity. Staffing levels are being adjusted down through attrition based on these changes.

We recently announced a new co-marketing referral agreement with Rocket Mortgage®, the nation's leading mortgage lender. This partnership is a timely response to industry changes in demand while still providing our 1N clients with best-in-class solutions to meet their mortgage needs. As a result of this new relationship, we eliminated our residential mortgage department saving nearly $1 million in annual expense going forward. Should the Bank want to add residential mortgages to its portfolio that can be done through purchases.

We previously reported the sale of six buildings in Glen Head reducing our future occupancy expense and the large majority of our rebranding expenses are behind us.

The expense savings just outlined should offset pressure to maintain competitive salaries and benefits, upgrade technology to meet customer expectations and protect against cybersecurity threats, pay rising corporate insurance rates, as well as other general and administrative expense increases due to higher inflation rates over the past two years.

Our planned technology upgrades for this quarter have been postponed until 2024, but when implemented will bring additional back-office efficiencies.

While we are just beginning our 2024 budget process, our goal is to reduce noninterest expenses below 2023 actual. We will provide more specific guidance on 2024 noninterest expenses in our year-end earnings call.

I will now address the upcoming executive management changes announced in our earnings release. Jay McConie has been an excellent Chief Financial Officer for the Company over the past four years. While the Board of Directors and I had all the confidence in the world in Jay when we named him to the position in January of 2020, he still exceeded our expectations, especially as we have navigated through one of the most difficult banking environments in over 40-years. Unfortunately, that environment along with other personal reasons have caused Jay to rethink his desire to continue in his role as our Chief Financial Officer. We are grateful for all he has accomplished for the Company and that he has agreed to continue in a consulting role through at least March of 2024, but with no defined end date.

On the positive side we have a strong executive bench and will move forward without missing a step. Janet Verneuille is highly qualified to take over the Chief Financial Officer role. She has been a trusted executive partner of mine for over 20 years both here and at two previous institutions including as my Chief Financial Officer when we were together at Bridge Bancorp. In her role as the Chief Risk Officer, Janet works closely with Jay and the other executives. As a Senior Executive Vice President and our next Chief Financial Officer, she will continue to build on Jay's advancements and move the Company forward.

Tan Ansari will take over as our new Chief Risk Officer. Tan works closely with Janet on an everyday basis and over the past eight years also worked directly with me. As a seasoned banker and our in-house counsel, he is well prepared for this opportunity and excited to take on the additional responsibilities.

Chris Hilton is a key leader in our transformation to make our bank more commercially focused. Under his guidance, the Bank improved organic growth in our small and mid-size business relationships resulting in an improved loan product mix and funding position. With this well-deserved promotion to

Senior Executive Vice President, he will be assuming additional sales responsibilities over digital banking and cash management.

With that, I would like to have Janet Verneuille make a few comments.

Janet Verneuille [00:08:57]

Good afternoon. While I have not had the pleasure of addressing the investor community since joining the Company as Chief Risk Officer in mid-2019, I work closely with Chris and Jay commenting on the press releases and other investor communications, reviewing our SEC filings, and enhancing our control environment.

My banking experience started in the branches, years ago, subsequently I transferred into the loan back office, later became a small business lender, and after a stint with KPMG to obtain my CPA license, I return to banking, mainly in Treasury and Finance. I spent years as a Chief Financial Officer in banking, and for three years also served as the lead financial officer in two different municipalities.

When Chris contacted me about moving into the Chief Risk Officer position at First of Long Island, it was both an opportunity and a challenge. The CRO views the Company through a different lens, and the role allowed me to use my diverse experience to augment positive changes. Returning to the CFO role now will be another challenge, especially in the current environment.

In my years as CRO here at the Bank I became intricately familiar with our risk appetite, corporate governance and bank wide processes. Jay and I will work together closely these upcoming weeks, and he leaves me with a strong team to further support the transition. I am confident in my ability to also develop strong and mutually respectful relationships outside the Bank, with analysts and the investor community.

Jay McConie will now discuss our financial results for the quarter. Jay.

Jay McConie [00:10:44]

Thank you, Janet. Good afternoon, everyone:

Adding to Chris' comments on the margin, the Bank's net interest margin was 2.13% in the current quarter compared to 2.17% in the second quarter of 2023. The four-basis point decline was a significant improvement from margin declines of 40 basis points and 17 basis points in the first and second quarters of 2023, respectively. The slowdown in margin compression also resulted in a much smaller decline in net interest income of $409,000 or 1.9% when compared to the linked quarter.

Quarterly net income of $6.8 million was down slightly from the second quarter of 2023 as a credit provision for credit losses of $171,000, a decline in non-interest expense of $350,000 and lower in income tax expense partially offset the lower net interest income and non-interest income.

The Company's ROA and ROE were 63 base points and 7.34%, respectively for the quarter.

The decline in net interest income continues to be fueled by the Federal Reserve Bank's aggressive monetary policy which has increased short-term rates by over 550 basis points. The yield curve has been inverted for over 15 months making it difficult for the Bank to utilize its excess capital to increase net interest income by adding leverage to our Balance sheet.

The Bank's quarterly non-interest income was $2.2 million which is consistent with prior guidance and prior quarters. This current run rate is anticipated to continue in the fourth quarter.

The Bank's non-interest expense was $16.1 million during the third quarter, a decrease of $353,000 when compared to the linked quarter. We expect non-interest expense to remain between $16 million to 16.5 million in Q4 of 2023. As Chris noted in his comments, management is ever mindful of expense control given the current environment and the Bank is making every effort to lower the run rate as we move into 2024.

The Bank's efficiency ratio was 65.3% for the nine months ended September 30, 2023, up from 49.7% in the prior year period. The increase is mostly attributable to a decline in net interest income. The Bank's ratio of non-interest expense to average total assets remained flat at 1.55% for the nine months ended September 30, 2023, and 2022, respectively.

The Bank's effective tax rate decreased to 11.5% in the third quarter of 2023 from 18.01% in the third quarter of 2022. The decline in the effective tax rate is mainly due to an increase in the percentage of pre-tax income derived from the Bank's real estate investment trust and Bank Owned Life Insurance. We anticipate our effective tax rate for the full year of 2023 to be between 11.50% to 12.0%.

On the asset side of the balance sheet, the Bank continues to deploy approximately $90 million in quarterly cash flows from our securities and loan portfolios into new assets at current market rates. The Bank purchased approximately $35 million in mortgage-backed securities with yields of approximately 6.00% during the third quarter. The Bank also originated approximately $50 million in mortgage loans with a gross weighted average rate of 6.23% for the quarter. The Bank has approximately $840 million or 20% of interest earning assets maturing or repricing within one year but remains liability sensitive.

On the funding side of the balance sheet, total deposits remain very stable at approximately $3.4 billion in 2023, but the mix of deposits has changed with approximately $136 moving from noninterest bearing demand deposits to interest bearing deposits as customers seek higher rates. This shift increased the average cost of funding on interest-bearing deposits by 153 basis points to 2.58% when comparing the third quarter of 2023 to the fourth quarter of 2022.

The Bank's cumulative deposit beta on non-maturity deposits was approximately 38% through September 30, 2023, which is close to our historical average in a rising rate environment. However, given both the pace and size of the increases, our deposit betas could be higher when this rising rate cycle finally ends.

The Bank's total wholesale funding, including brokered deposits, was $559 million or 13% of total assets on September 30, 2023, and had a weighted average cost of funds of 4.53% and average maturity of 8 months. In addition, the Bank has $366 million in retail deposits that mature over the next 15 months with an average cost of funds of 4.08%.

As this funding matures in the coming quarters, it could result in some additional upward cost pressure in each of these categories. However, management believes additional interest expense from liability repricing will largely be offset as interest income from asset repricing leading to margin stabilization.

The Bank's uninsured and uncollateralized deposits remained stable at 38% of total deposits on September 30, 2023, the same percentage as on June 30, 2023.

The Bank continues to have ample liquidity. We maintained $1.3 billion in collateralized borrowing lines with the Federal Home Loan Bank of New York and the Federal Reserve Bank. We also had $271 million in unencumbered cash and securities. In total we had approximately $1.6 billion of available liquidity at the end of the quarter, which is well in excess of our uninsured and uncollateralized deposits.

Our capital position remains strong with a leverage ratio of 10.0% compared to 10.1% on June 30, 2023.

The Bank did not repurchase any shares during the third quarter of 2023. We still have approximately $15 million authorized under the most recent Board approved stock repurchase plan. The Bank declared its quarterly cash dividend of $0.21 cents per share on September 28, 2023.

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

Operator [00:16:29]

Thank you. Our first question for today comes from Alex Twerdahl of Piper Sandler. Alex, please proceed with your question.

Alex Twerdahl
Good afternoon.

Chris Becker
Good afternoon. Alex.

Jay McConie
Hi, Alex.

Alex Twerdahl
Yeah. First off, Jay, it's been a pleasure working with you over the last couple of years. Wish you the best in the next chapter for you and Janet, I look forward to meeting and working with you in the future from now.

Janet Verneuille
Thank you.

Jay McConie
Yeah. Thank you, Alex. It's been a pleasure working with you as well and attending some of the conferences and so forth. Thank you.

Alex Twerdahl
When I look at the some of the things that you're doing, some of the reorganization with the Rocket Mortgage and then seeing the loan growth numbers this quarter. Can you just talk about your appetite to grow assets and loans, particularly over the next couple of quarters? I know the funding is obviously a challenge. I'm just trying to figure out if the plan should be to grow

through it, or if it's kind of just churning in place, or how we should be thinking about that.

Chris Becker

I think certainly for now, kind of staying in place. And it's just largely because of the yield curve. You know, if you're able to bring in new relationship deposits that have a good blended yield low enough, you know, it certainly makes sense to grow. But the challenge remains, as I said in my comments, you do have depositors that their strong relationship but they have some excess funds and they're saying, well, gee, I can get 5.5% in short term treasury. I'm going to move some of the excess funds into that. And we're not really interested in paying 5.5% on deposits. So, you lose some money there. And it's difficult with some of those movements to grow again, just repeating kind of what I said earlier. So, really for the foreseeable future, the next, quarter or two, it's probably going to be similar to what you've seen in the past quarters where you might have a little bit of growth, one quarter, a little bit of contraction one quarter, but fairly flat as far as total assets.

Jay McConie

Yeah, Alex. Too when you look kind of on a linked quarter, our ROA has kind of stabilized at about 60 basis points ROE in the mid seven range and so forth. So, we really want to call this stabilization. And until we start seeing a positively slope yield curve then we can take advantage of some of our excess leverage ratio at 10%. You know, we don't want to leverage up at such a low margin right now or low spread in the in the curve.

Alex Twerdahl

Yeah. It makes sense, I guess. I mean sort of on the same lines. And maybe this comes a little bit out of left field. But I just know the FDIC is currently selling some loans in your market. You guys are kind of uniquely positioned with expertise in some of the categories in which they might be selling some of these pools. And, you know, who knows what the pricing could look like. But there's some pretty interesting structures. I mean, is participating in something like that something you'd ever consider doing?

Chris Becker

We would consider purchasing assets again if the spread was reasonable. You know, if we have to go out and purchase something at a 50 basis point spread, that's not really attractive to us. If you can get something obviously in line with the current margin or ideally better than your current margin, we absolutely would consider something like that.

Alex Twerdahl
Okay. I think in the past, Jay you mentioned in your prepared remarks the yield on new production during the quarter. Can you just let us know sort of where the pipeline is and how the loan yields have progressed over the course of the quarter.

Jay McConie
Yeah, it's about 126 million of pipeline, predominantly commercial. With us stepping out of the residential business. You know, we'll still purchase residential mortgages but not originate. And with the yield curve steepening in the five year and ten year, getting up into the 480 range, and we originate with a spread, you're starting to see those yields being a high sixes to low sevens. On the flip side you're starting to see demand really kind of come down as you get into the seven handles as obviously there's no refinancing activity going on. It's new purchases and those people are looking for new purchases or get a little bit cold feet in the seven handles.

Alex Twerdahl
Yeah, okay. Makes sense. Then you mentioned that you guys are still liability sensitive. Is the goal over time to become more neutral? And I know you did a little balance sheet restructuring, which I think looking back was a pretty good move back earlier this year. Are you looking at additional similar types of transactions to help boost NIM in the future?

Jay McConie
Uh, right now? Probably not. We felt those two moves, the securities restructuring and the swap, where we converted 300 million of residential to floating where we're timed right. We do feel that we're kind of in the eighth and ninth inning of this rising rate cycle, and we're going to kind of take it quarter by quarter. We think NIM has stabilized. We think a lot of our wholesale, for the most part, have repriced and take it quarter by quarter and see what the fed does before we make any decisions to do any larger type of restructurings or additional swaps.

Alex Twerdahl

Great. Thanks for taking my questions.

Chris Becker
Thanks, Alex.

Operator
Our next question comes from Chris O'Connell at KBW. Chris, please proceed with your question.

Chris O'Connell
Hey. Good afternoon. I just want to echo the same sentiment. It's been great working with you, Jay, and wish you luck in your next steps and look forward to working with you, Janet.

Janet Verneuille
Thank you.

Jay McConie
Thank you. Chris.

Chris O'Connell
So yeah, I was hoping to start off in the margin. I mean obviously the compression this quarter was a lot less onerous than the past couple. I think in prior quarters you've sometimes given the monthly margins. I was wondering if you had that for the July, August, September periods.

Chris Becker
We do, in July it was 216, in August it was 220, in September was 202. 202 is a little obviously lower than you want to see. But we did have some prepayments on some of the SBA floaters we have in the investment portfolio, which caused that yield to be considerably lower that month, which put on pressure in that 30-day month. And that's the other issue in a 30-day month, you know, our margins throughout the year, in a 30-day month are always a little bit lower. So, we don't want to that 202 to be overly indicative of going forward but, to be seen.

Chris O'Connell

Got it. And I know you guys mentioned the margin hoping to bottom, all else equal on rates here over the next couple of quarters. Any sense as to the magnitude of the pressure of where that could bottom. Either just on a trajectory for Q4 or kind of the ultimate level of bottom.

Chris Becker

Yeah. It's been hard, as you know, Chris, throughout this cycle to try to give very good guidance on the margin. And I think you've seen that there's been a lot of misses on that throughout the year for many banks. But you know, what we're seeing, as we're looking at our internal projections is that so much of our liability side has repriced. So even if there's still some small repricing in things that have already repriced, but maybe come up again over the next few quarters, there's obviously not as much upside from where they are now. So, as that's being fully priced in, now we see the asset side, those 90 million and quarterly cash flows that Jay talked about. You know, we see those starting to be able to offset the liability pricing. And that's why we kind of see the margin bottoming out over the next two quarters. What that exactly means, is it the same in the fourth quarter and the first quarter, you know, does it bottom out in one or the other? It's hard to get that that specific on it. But we do see, over the next two quarters, that trough and then the, liability side, assuming again the fed stops with their rate increases. You know, we see the liability side being done. And the asset side little by little can start to tick up. And obviously if the fed makes some moves in the other direction and we get some steepness in the yield curve, that's when you'll see it turn around more rapidly. So, it's kind of difficult to tell where that bottom is, best guess scenario, and you hate to say guess, but looking at the best data we have at this point and using certain assumptions. Could it go down, bottom out over the next two quarters, another 5 to 10 basis points, maybe a little bit more. It could, it's just very difficult to tell. But we just have to kind of see what the fed does and what the market does.

Chris O'Connell

Yeah. No, I hear you. That's helpful though, appreciate it. I know it's a difficult thing to discern at this point. And then, just quickly, so for the tax rate for this year, obviously the 11.5 to 12% range, is that where you think it will remain next year or should it take up a bit?

Jay McConie

Yeah, kind of working on that forecast now and have to go through that. Preliminary I would say probably budget between maybe 13 to 14% because as we kind of come out of this and hopefully yield curve steepens, we can start to look for expanding margins if you get a steepening yield curve. But I would keep it around that 13 to 14%.

Chris O'Connell
Okay, great. You mentioned in the prepared remarks that you pushed out some of the planned IT upgrades into 2024 that can bring some efficiencies. Can you just provide us with a little bit of color as to what those upgrades are, and how you guys plan to bring those on?

Chris Becker
Sure, we've been working on a core conversion, which also plans to upgrade our business, online banking and our branch teller and platform systems. And along with that, in the back office, our item processing would be outsourced. So, the combination of all those things we believe certainly in the back office with the item processing brings about some staffing efficiencies. And we just felt that this is a long project. You know, these types of projects go on 18 to 24 months. And as we were getting closer to a target date, we felt that working with our...that it would be best to put it off a few months. So, you know, we're still evaluating. We haven't picked another date yet, but we anticipate that to be done in early 2024.

Chris O'Connell
Great. And then on the credit side, I mean, everything on your individual metrics looks fantastic, especially relative to the industry, which has seen a couple issues pop up this quarter. How are you guys seeing your credit on a “go forward” basis and things in your market? Are there any cracks anywhere, anything that you're concerned about?

Chris Becker
No, we're not concerned with our portfolio. And the whole is, I think, in conversations with customers and in the market, you're starting to hear some things where maybe things are slowing down for certain businesses. I think people get a little bit nervous about what's going on in the economy and also the world in general. But obviously our numbers are not showing any specific problems like that, any numbers ticking up, but even with us there's always a

couple of loans on the problem loan list that something could happen, but nothing in a big sense that's concerning us.

Chris O'Connell
Got it. That's helpful. Okay, great. Thank you for taking my questions.

Jay McConie
Thanks, Chris.

Chris Becker
Thank you.

Operator [00:30:39]

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

Chris Becker

Yes, thank you all for your attention and participation on today's call. Janet Verneuille and I look forward to talking to you at year-end. Have a good rest of the day.