FIRST OF LONG ISLAND CORP
Form 10-K
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-32964

THE FIRST OF LONG ISLAND CORPORATION

(Exact Name Of Registrant As Specified In Its Charter)

New York (State or Other Jurisdiction of Incorporation or Organization)	11-2672906 (I.R.S. Employer Identification No.)
10 Glen Head Road, Glen Head, NY (Address of Principal Executive Offices)	11545 (Zip Code)

(516) 671-4900

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.10 par value per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Corporation's voting common stock held by nonaffiliates as of June 30, 2017, the last business day of the Corporation's most recently completed second fiscal quarter, was $663.5 million. This value was computed by reference to the price at which the stock was last sold on June 30, 2017 and excludes $26.6 million representing the market value of common stock beneficially owned by directors and executive officers of the registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding, March 1, 2018
Common Stock, $.10 par value	25,018,449

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 17, 2018 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

General

The First of Long Island Corporation (“Registrant”), a one-bank holding company, was incorporated on February 7, 1984 for the purpose of providing financial services through its wholly-owned subsidiary, The First National Bank of Long Island. The consolidated entity is referred to as the "Corporation," and the Bank and its subsidiaries are collectively referred to as the "Bank."

The Bank was organized in 1927 as a national banking association under the laws of the United States of America. The Bank has two wholly owned subsidiaries: FNY Service Corp., an investment company, and The First of Long Island Agency, Inc. The Bank and FNY Service Corp. jointly own another subsidiary, The First of Long Island REIT, Inc., a real estate investment trust (“REIT”).

All of the financial operations of the Corporation are aggregated in one reportable operating segment. All revenues are attributed to and all long-lived assets are located in the United States.

The Bank’s revenues are derived principally from interest on loans and investment securities, service charges and fees on deposit accounts, income from investment management and trust services and bank-owned life insurance (“BOLI”).

The Bank did not commence, abandon or significantly change any of its lines of business during 2017.

Markets Served and Products Offered

The Bank serves the financial needs of privately owned and publicly held businesses, professionals, consumers, public bodies and other organizations primarily in Nassau and Suffolk Counties, Long Island, and the boroughs of New York City. The Bank’s head office is located in Glen Head, New York, and the Bank has 37 other full service branches, ten commercial banking offices and two select service banking centers. Included in these totals are five full service branches in Queens, one in Brooklyn and two commercial banking offices in Manhattan. The Bank continues to evaluate potential new branch sites on Long Island and in the boroughs of New York City.

The Bank’s loan portfolio is primarily comprised of loans to borrowers on Long Island and in the boroughs of New York City, and its real estate loans are principally secured by properties located in those areas. The Bank’s investment securities portfolio is comprised of direct obligations of the U.S. government and its agencies and highly rated obligations of states and political subdivisions. The Bank has an Investment Management Division that provides investment management, pension trust, personal trust, estate and custody services.

In addition to its loan and deposit products, the Bank offers other services to its customers including the following:

Account Reconciliation Services	Mobile Banking
ACH Origination	Mobile Capture
ATM Banking and Deposit Automation	Mutual Funds, Annuities and Life Insurance
Bank by Mail	Night Depository Services
Bill Payment	Online Banking
Cash Management Services	Payroll Services
Collection Services	Personal Money Orders
Controlled Disbursement Accounts	Remote Deposit
Drive-Through Banking	Safe Deposit Boxes
Foreign Currency Sales and Purchases	Securities Transactions
Healthcare Remittance Automation	Signature Guarantee Services
Instant Issue Debit Cards	Telephone Banking
Investment Management and Trust Services	Travelers Checks
Lock Box Services	Wire Transfers - Domestic and International
Merchant Credit Card Services	Withholding Tax Depository Services

Competition

The Bank encounters substantial competition in its banking business from numerous other financial services organizations that have offices located in the communities served by the Bank. Principal competitors are money center, large regional and community banks located within the Bank’s market area, as well as mortgage brokers, brokerage firms and credit unions. The Bank competes for loans based on the quality of service it provides, loan structure, competitive pricing and branch locations, and competes for deposits by offering a high level of customer service, paying competitive rates and through the geographic distribution of its branch system.

Investment Activities

The investment policy of the Bank, as approved by the Board Asset Liability Committee (“BALCO”) and supervised by both the BALCO and the Management Investment Committee, is intended to promote investment practices which are both safe and sound and in full compliance with applicable regulations. Investment authority will be granted and amended as is necessary by the Board of Directors or BALCO.

The Bank's investment decisions seek to optimize income while keeping both credit and interest rate risk at acceptable levels, provide for the Bank's liquidity needs and provide securities that can be pledged, as needed, to secure deposits and borrowings.

The Bank’s investment policy generally limits individual maturities to twenty years and estimated average lives on collateralized mortgage obligations (“CMOs”) and other mortgage-backed securities to ten years. At the time of purchase, bonds of states and political subdivisions must generally be rated AA or better, notes of states and political subdivisions must generally be rated MIG-1 (or equivalent), commercial paper must be rated A-1 or P-1, and corporate bonds must be rated AA or better. In addition, management periodically reviews the creditworthiness of all securities in the Bank’s portfolio other than those issued by the U.S. government or its agencies. Any significant deterioration in the creditworthiness of an issuer is analyzed and action is taken if deemed appropriate.

At year-end 2017 and 2016, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders’ equity.

At December 31, 2017, $464.2 million of the Corporation’s municipal securities were rated AA or better and $4.1 million were non-rated bonds issued by local municipalities. The Corporation’s pass-through mortgage securities portfolio at December 31, 2017 is comprised of $4.9 million and $66.8 million of securities issued by the Government National Mortgage Association (“GNMA”) and the Federal National Mortgage Association (“FNMA”), respectively. Each issuer’s pass-through mortgage securities are backed by residential mortgages conforming to the issuer’s underwriting guidelines and each issuer guarantees the timely payment of principal and interest on its securities. All of the Corporation’s CMOs were issued by GNMA and such securities are backed by GNMA residential pass-through mortgage securities. GNMA guarantees the timely payment of principal and interest on its CMOs and the underlying pass-through mortgage securities. Obligations of GNMA, a U.S. government agency, represent full faith and credit obligations of the U.S. government, while obligations of FNMA, which is a U.S. government-sponsored agency, do not.

The Bank has not engaged in the purchase and sale of securities for the primary purpose of producing trading profits and its current investment policy does not allow such activity.

Lending Activities

General. The Bank's lending is subject to written underwriting standards and loan origination procedures, as approved by the Board Loan Committee and contained in the Bank's loan policy. The loan policies allow for exceptions and set forth specific exception approval requirements. Decisions on loan applications are based on, among other things, the borrower's credit history, the financial strength of the borrower, estimates of the borrower's ability to repay the loan and the value of the collateral, if any. All real estate appraisals must meet the requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), banking agency guidance and, for those loans in excess of $250,000, be reviewed by the Bank's independent appraisal review function.

The Bank conducts its lending activities out of its main office in Glen Head, New York and its Suffolk County regional office in Hauppauge, New York. The Bank's loan portfolio is primarily comprised of loans to small and medium-sized privately owned businesses, professionals and consumers on Long Island and in the boroughs of New York City. The Bank offers a full range of lending services including commercial and residential mortgage loans, home equity lines, commercial and industrial loans, small business credit scored loans, Small Business Administration ("SBA") loans, construction and land development loans, consumer loans and commercial and standby letters of credit. The Bank makes both fixed and variable rate loans. Variable rate loans are primarily tied to and reprice with changes in the prime interest rate of the Bank, the prime interest rate as published in The Wall Street Journal, U.S. Treasury rates, Federal Home Loan Bank of New York advance rates and the London Interbank Offered Rate (LIBOR).

Residential mortgage loans in excess of $1.0 million and other loans in excess of $750,000 generally require the approval of the Management Loan Committee. Loans in excess of $12.5 million require the additional approval of two non-management members of the Board Loan Committee, while those in excess of $17.5 million require the approval of a majority of the Board of Directors.

Commercial and Industrial Loans. Commercial and industrial loans include, among other things, short-term business loans and lines of credit; term and installment loans; loans secured by marketable securities, the cash surrender value of life insurance policies, deposit accounts or general business assets; small business credit scored loans as described hereinafter; and equipment finance loans. The Bank makes commercial and industrial loans on a demand basis, short-term basis, or installment basis. Short-term business loans are generally due and payable within one year and should be self-liquidating during the normal course of the borrower's business cycle. Lines of credit are reaffirmed annually and generally require an annual cleanup period. Term and installment loans are usually due and payable within five years. Generally, it is the policy of the Bank to request personal guarantees of principal owners on loans made to privately-owned businesses.

Small Business Credit Scored Loans. The Bank makes small business credit scored loans and issues VISA® credit cards to businesses that generally have annual sales at the time of application of less than $2 million. Most of these loans are in the form of revolving credit lines and, depending on the type of business, the maximum amount generally ranges from $100,000 to $500,000. Others are installment loans made to finance business automobiles, trucks and equipment and can be secured by the asset financed and/or deposit accounts with the Bank. Both installment loans and revolving credit commitments generally have maturities up to sixty months. Business profile reports are used in conjunction with credit reports and FICO (Fair Isaac Corporation) small business score cards for loan underwriting and decision making purposes. Credit and FICO small business risk scores enable the Bank to quickly and efficiently identify and approve loans to low-risk business applicants and decline loans to high-risk business applicants. There were $1.0 million of small business credit scored term loans outstanding at December 31, 2017. In addition, the Bank had commitments on small business credit scored revolving lines of credit of $42.9 million, of which $17.7 million were drawn and funded.

Real Estate Mortgage Loans and Home Equity Lines. The Bank makes residential and commercial mortgage loans and establishes home equity lines of credit. Applicants for residential mortgage loans and home equity lines will be considered for approval provided they have satisfactory credit history and collateral and the Bank believes that there is sufficient monthly income to service both the loan or line applied for and existing debt. Applicants for commercial mortgage loans will be considered for approval provided they, as well as any guarantors, have satisfactory credit history and can demonstrate, through financial statements and otherwise, the ability to repay. Commercial and residential mortgage loans are made with terms not in excess of thirty years and are generally maintained in the Bank's portfolio. The residential mortgage loans made by the Bank in recent years consist of both fixed rate loans with terms ranging from 10 to 30 years and variable rate loans that reprice in five, seven or ten years and then every year thereafter. Commercial mortgage loans generally reprice within five years and home equity lines generally mature within ten years. Depending on the type of property, the Bank will generally not lend more than 75% of appraised value on residential mortgage, home equity and commercial mortgage loans. The lending limitations with regard to appraised value are more stringent for loans on co-ops and condominiums.

In processing requests for commercial mortgage loans, the Bank generally requires an environmental assessment to identify the possibility of environmental contamination. The extent of the assessment procedures varies from property to property and is based on factors such as the use and location of the subject property and whether or not the property has a suspected environmental risk based on current or past use.

Construction Loans. From time to time, the Bank makes loans to finance the construction of both residential and commercial properties. The maturity of such loans is generally eighteen months or less and advances are made as the construction progresses. The advances can require the submission of bills by the contractor, verification by a Bank-approved inspector that the work has been performed, and title insurance updates to ensure that no intervening liens have been placed. Variable rate construction and land development loans are included in Commercial Mortgages on the Consolidated Balance Sheet and amounted to $8.5 million at December 31, 2017.

Consumer Loans and Lines. The Bank makes auto loans, home improvement loans and other consumer loans, establishes revolving overdraft lines of credit and issues VISA® credit cards. Consumer loans are generally made on an installment basis over terms not in excess of five years. In reviewing loans and lines for approval, the Bank considers, among other things, the borrower's ability to repay, stability of employment and residence, and past credit history.

Sources of Funds

The Corporation's primary sources of cash are deposits, maturities and amortization of loans and investment securities, operations, borrowings and funds received under the Dividend Reinvestment and Stock Purchase Plan ("DRIP"). The Corporation uses cash from these and other sources to fund loan growth, purchase investment securities, repay borrowings, expand and improve its physical facilities, pay cash dividends and for general operating purposes.

The Bank offers checking and interest-bearing deposit products. In addition to business and small business checking, the Bank has a variety of personal checking products that differ in minimum balance requirements, monthly maintenance fees, and per check charges, if any. The interest-bearing deposit products, which have a wide range of interest rates and terms, consist of checking accounts, which include negotiable order of withdrawal ("NOW") accounts and IOLA, escrow service accounts, rent security accounts, a variety of personal and nonpersonal money market accounts, a variety of personal and nonpersonal savings products, time deposits, holiday club accounts, and a variety of individual retirement accounts.

The Bank relies primarily on its branch network, customer service, calling programs, lending relationships, referral sources, competitive pricing and advertising to attract and retain local deposits. The flow of deposits is influenced by general economic conditions, changes in interest rates and competition.

Employees

As of December 31, 2017, the Bank had 333 full-time equivalent employees and considers employee relations to be good. Employees of the Bank are not represented by a collective bargaining unit.

Supervision and Regulation

General. The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the banking system, and not for the purpose of protecting shareholders. The following discussion is not intended to be a complete list of all the activities regulated by banking laws or of the impact of such laws and regulations on the Corporation and the Bank. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies, cannot be predicted, but may have a material effect on our business and results of operations.

As a registered bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and subject to inspection, examination and supervision by the Federal Reserve Board. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the Federal Reserve has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto under the BHC Act. The Corporation is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the Securities and Exchange Commission (“SEC”). Our common stock is listed on the Capital Market tier of the NASDAQ Stock Market (“NASDAQ”) under the symbol “FLIC” and is subject to NASDAQ rules for listed companies.

As a national bank, the Bank is subject to regulation and examination by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”). Insured banks, such as the Bank, are subject to extensive regulation of many aspects of their businesses. These regulations relate to, among other things: (i) the nature and amount of loans that may be made by the Bank and the rates of interest that may be charged; (ii) types and amounts of other investments; (iii) branching; (iv) anti-money laundering; (v) permissible activities; (vi) reserve requirements; and (vii) dealings with officers, directors and affiliates.

The Dodd-Frank Act made extensive changes in the regulation of depository institutions and their holding companies. For example, the Dodd-Frank Act created a new Consumer Financial Protection Bureau ("CFPB") as an independent bureau of the Federal Reserve Board. The CFPB has assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to principal federal banking regulators, and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as the Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their primary federal regulator, although the CFPB has limited back-up authority to examine such institutions.

Bank Holding Company Regulation. The BHC Act requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of 5% or more of the voting stock or substantially all of the assets of any bank or bank holding company. Also, under the BHC Act, bank holding companies are prohibited, with certain exceptions, from engaging in, or from acquiring 5% or more of the voting stock of any company engaging in activities other than (i) banking or managing or controlling banks, (ii) furnishing services to or performing services for their subsidiaries or (iii) activities that the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that meet certain criteria specified by the Federal Reserve may elect to be regulated as a "financial holding company" and thereby engage in a broader array of financial activities including insurance and investment banking.

Payment of Dividends. A large source of the Corporation's liquidity is dividends from the Bank. Prior approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year would exceed the sum of the bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Under the foregoing dividend restrictions, and while maintaining its "well-capitalized" status and absent affirmative governmental approvals, during 2018 the Bank could declare dividends to the Corporation of approximately $52.7 million plus any 2018 net profits retained to the date of the dividend declaration.

In addition, the Corporation and the Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimum capital levels. The Federal Reserve Board is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. Federal Reserve guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve staff in advance of declaring a dividend that exceeds earnings for the quarter and should inform the Federal Reserve and should eliminate, defer or significantly reduce dividends if (i) net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) the prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Transactions with Affiliates. Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Regulations promulgated by the Federal Reserve Board limit the types and amounts of these transactions (including loans due and extensions of credit from their U.S. bank subsidiaries) that may take place and generally require those transactions to be on an arm's-length basis. In general, these regulations require that any "covered transactions" between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company be limited to 10% of the bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit to affiliates generally are required to be secured by eligible collateral in specified amounts.

Source of Strength Doctrine. Federal Reserve policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Corporation is expected to commit resources to support the Bank, including at times when the Corporation may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Capital Requirements. As a bank holding company, the Corporation is subject to consolidated regulatory capital requirements administered by the Federal Reserve. The Bank is subject to similar capital requirements administered by the OCC.

The Corporation and the Bank implemented the Basel III regulatory capital standards ("Basel III") issued by the Federal Reserve Board and the OCC. Under the Basel III capital requirements, the Corporation and the Bank are required to maintain minimum ratios of capital to assets of 4.00% for Tier 1 capital to average assets, 4.50% for Common equity tier 1 capital to risk weighted assets, 6.00% for Tier 1 capital to risk weighted assets and 8.00% for Total capital to risk weighted assets. Common equity tier 1 capital, Tier 1 capital, Total capital, risk weighted assets and average assets are defined in the Basel III rules. Failure to meet the minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements of the Corporation and Bank. The Corporation and the Bank exceeded the Basel III minimum capital adequacy requirements at December 31, 2017.

Basel III also phases-in a capital conservation buffer from 2016 through 2019. The capital conservation buffer must be maintained in order for a banking organization to avoid being subject to limitations on capital distributions, including dividend payments, and discretionary bonus payments to executive officers. The capital ratio phase-in schedule, including the capital conservation buffer, for banks with $250 billion or less in total assets is as follows:

	2015	2016	2017	2018	2019
Minimum leverage measure (%)	4.0	4.0	4.0	4.0	4.0
Minimum common equity tier 1 risk-based capital ("RBC") (%)	4.5	4.5	4.5	4.5	4.5
Capital conservation buffer (%)	N/A	.625	1.25	1.875	2.5
Minimum common equity tier 1 RBC with capital conservation buffer (%)	4.5	5.125	5.75	6.375	7.0
Minimum tier 1 RBC (%)	6.0	6.0	6.0	6.0	6.0
Minimum tier 1 RBC with capital conservation buffer (%)	6.0	6.625	7.25	7.875	8.5
Minimum total RBC (%)	8.0	8.0	8.0	8.0	8.0
Minimum total RBC with capital conservation buffer (%)	8.0	8.625	9.25	9.875	10.5

Prompt Corrective Action Regulations. The Federal Deposit Insurance Act, as amended (“FDIA”), requires among other things, the federal banking agencies to take “prompt corrective action” with respect to banks that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers for purposes of implementing the prompt corrective action (“PCA”) regulations: “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” The PCA thresholds established by Basel III for each of the capital tiers is as follows:

	Total RBC Measure (%)	Tier 1 RBC Measure (%)	Common Equity Tier 1 RBC Measure (%)	Leverage Measure (%)
Well capitalized	> 10	> 8	> 6.5	> 5
Adequately capitalized	> 8	> 6	> 4.5	> 4
Undercapitalized	< 8	< 6	< 4.5	< 4
Significantly undercapitalized	< 6	< 4	< 3	< 3
Critically undercapitalized	Tangible equity to total assets < 2			

The Bank was well capitalized under the Basel III PCA thresholds at December 31, 2017.

Deposit Insurance. The FDIC imposes an assessment on financial institutions for deposit insurance. The assessment is based on the risk category of the institution as assigned by the FDIC, the institution’s average total assets and average tangible equity. The FDIC periodically adjusts the deposit insurance assessment rates, which may raise or lower the cost to an institution of maintaining FDIC insurance coverage.

The FDIC may terminate the insurance of an institution’s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank’s deposit insurance.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, through regulations or guidelines, relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying one or more of the safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the PCA provisions of the FDIA. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Community Reinvestment Act and Fair Lending Laws. The Community Reinvestment Act of 1977 (“CRA”) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low and moderate income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Banking regulators take into account CRA ratings when considering approval of proposed acquisition transactions. The Bank received a “Satisfactory” CRA rating on its most recent Federal examination. The Bank and the Corporation are firmly committed to the practice of fair lending and maintaining strict adherence to all federal and state fair lending laws which prohibit discriminatory lending practices.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System (“FHLB System”), which consists of 11 regional Federal Home Loan Banks (each a “FHLB”). The FHLB System provides a central credit facility primarily for member banks. As a member of the FHLB of New York, the Bank is required to acquire and hold shares of capital stock in the FHLB in an amount equal to 4.5% of its borrowings from the FHLB (transaction-based stock) plus .15% of the total principal amount at the beginning of the year of the Bank’s unpaid residential real estate loans, commercial real estate loans, home equity loans, CMOs, and other similar obligations (membership stock). At December 31, 2017, the Bank was in compliance with the FHLB’s capital stock ownership requirement.

Financial Privacy. Federal regulations require the Bank to disclose its privacy policy, including identifying with whom it shares “nonpublic personal information,” to its customers at the time the customer establishes a relationship with the Bank and annually thereafter. In addition, we are required to provide our customers with the ability to “opt-out” of having the Bank share their nonpublic personal information with nonaffiliated third parties before we can disclose that information, subject to certain exceptions.

The federal banking agencies adopted guidelines establishing standards for safeguarding our customer information. The guidelines describe the agencies’ expectation that regulated entities create, implement and maintain an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity and the nature and scope of our activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of customer records, and protect against unauthorized access to records or information that could result in substantial harm or inconvenience to customers. Additionally, the guidance states that banks, such as the Bank, should develop and implement a response program to address security breaches involving customer information, including customer notification procedures. The Bank has developed such a program.

Anti-Money Laundering and the USA PATRIOT Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (“Patriot Act”) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal, financial and reputational consequences for the institution. The Bank and the Corporation are firmly committed to maintaining strong policies, procedures and controls to ensure compliance with anti-money laundering laws and regulations and to combat money laundering and terrorist financing.

Legislative Initiatives and Regulatory Reform. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to change substantially the financial institution regulatory system. Such legislation could change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Corporation cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to the Corporation could have a material effect on our business.

Availability of Reports

The Bank maintains a website at www.fnbli.com. The Corporation’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the Bank’s website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. To access these reports go to the homepage of the Bank’s website and click on “Investor Relations,” then click on “SEC Filings,” and then click on “Corporate SEC Filings.” This will bring you to a listing of the Corporation’s reports maintained on the SEC’s EDGAR website. You can then click on any report to view its contents. Information on our website shall not be considered a part of this annual report on Form 10-K.

You may also read and copy any document we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You should call 1-800-SEC-0330 for more information on the Public Reference Room. Our SEC filings are also available on the SEC’s website at www.sec.gov.

ITEM 1A. RISK FACTORS

The Corporation is exposed to a variety of risks, some of which are inherent in the banking business. The more significant of these are addressed by the Corporation’s written policies and procedures. While management is responsible for identifying, assessing and managing risk, the Board of Directors is responsible for risk oversight. The Board fulfills its risk oversight responsibilities largely through its committees. The following provides information regarding risk factors faced by the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently deems to be immaterial, could also have a material impact on the Corporation’s business, financial condition, or results of operations.

The inability to realize the full carrying value of the Bank's investment securities, loans and bank-owned life insurance could negatively impact our financial condition and results of operations.

For investment securities, loans and bank-owned life insurance, there is always the risk that the Bank will be unable to realize their full carrying value. Credit risk in the Bank's securities and bank-owned life insurance portfolios has been addressed by adopting board committee approved investment and bank-owned life insurance policies that, among other things, limit terms, types and amounts of holdings and specify minimum required credit ratings. Allowable investments include direct obligations of the U.S. government and its agencies, highly rated obligations of states and political subdivisions, highly rated corporate obligations and bank-owned life insurance policies issued by highly rated insurance carriers. At the time of purchase, bonds of states and political subdivisions must generally be rated AA or better, notes of states and political subdivisions must generally be rated MIG-1 (or equivalent), commercial paper must be rated A-1 or P-1, and corporate bonds must be rated AA or better. Bank-owned life insurance may only be purchased from insurance carriers rated A or better. For carriers rated AA or better, cash surrender value is limited to 15% of Tier 1 capital, and for those carriers rated below AA, the limitation is 10% of Tier 1 capital. The cash surrender value of policies with all carriers, plus corporate bond holdings of such carriers, cannot exceed 25% of Tier 1 capital. Management periodically reviews the creditworthiness of all securities in the Bank's portfolio other than those issued by the U.S. government or its agencies and all bank-owned life insurance carriers. Any significant deterioration in the creditworthiness of an issuer or carrier will be analyzed and action taken if deemed appropriate.

Credit risk in the Bank's loan portfolio has been addressed by adopting a board committee approved loan policy and by maintaining independent loan and appraisal review functions and an independent credit department. The loan policy contains what the Corporation believes to be prudent underwriting guidelines, which include, among other things, specific loan approval requirements, maximum loan terms, loan to appraised value and debt service coverage limits for mortgage loans, credit score minimums, guarantor support and environmental study requirements.

The credit risk within the Bank's loan portfolio primarily stems from factors such as changes in the borrower's financial condition, credit concentrations, changes in collateral values, economic conditions and environmental contamination. The Bank's commercial loans, including those secured by mortgages, are primarily made to small and medium-sized businesses. Such loans sometimes involve a higher degree of risk than those to larger companies because such businesses may have shorter operating histories, higher debt-to-equity ratios and may lack sophistication in internal record keeping and financial and operational controls. In addition, most of the Bank's loans are made to businesses and consumers on Long Island and in the boroughs of New York City, and a large percentage of these loans are mortgage loans secured by properties located in those areas. At December 31, 2017, residential mortgage loans, including home equity lines of credit, amounted to approximately $1.6 billion and comprised approximately 58% of loans secured by real estate. The primary source of repayment for residential mortgage loans is cash flows from individual borrowers and co-borrowers. Also, at December 31, 2017, multifamily loans amounted to approximately $683 million and comprised approximately 57% of the Bank's total commercial mortgage portfolio and approximately 24% of the Bank's total loans secured by real estate. The primary source of repayment for multifamily loans is cash flows from the underlying properties, a substantial portion of which are rent stabilized or rent controlled. Such cash flows for both residential mortgage and multifamily loans are dependent on the strength of the local economy.

Environmental impairment of properties securing mortgage loans is always a risk. However, at the present time, the Bank is not aware of any existing loans in the portfolio where there is environmental pollution originating on or near the mortgaged properties that would materially affect the value of the portfolio.

Uncertainty, changes in accounting rules and regulatory principals and other factors could result in a need to increase the Bank’s Allowance for Loan Losses and adversely impact our financial condition and results of operations.

The Bank maintains an allowance for loan losses in an amount believed to be adequate to absorb probable incurred losses in its loan portfolio. The maintenance of the allowance for loan losses is governed by a board committee approved allowance for loan and lease losses policy. In arriving at the allowance for loan losses, an impairment analysis is performed on each loan where it is probable that the borrower will not be able to make all required principal and interest payments according to contractual terms. In addition, incurred losses for all other loans in the Bank’s portfolio are determined on a pooled basis taking into account, among other things, historical loss experience, delinquencies, economic conditions, changes in value of underlying collateral, trends in nature and volume of loans, concentrations of credit, changes in lending policies and procedures, experience, ability and depth of lending staff, changes in quality of the loan review function, environmental risks and loan risk ratings. Because estimating the allowance for loan losses is highly subjective in nature and involves a variety of estimates and assumptions that are inherently uncertain, there is the risk that management’s estimate may not accurately capture probable incurred losses in the loan portfolio. The Bank’s allowance may need to be increased based on, among other things, additional information that comes to light after the estimate is made, changes in circumstances or a recommendation by bank regulators based on their review of the Bank’s loan portfolio. The impact of one or more of these factors on the Bank’s allowance could result in the need for a significant increase in the Bank’s provision for loan losses and have a material adverse impact on the Bank’s financial condition and results of operations.

In addition, the Financial Accounting Standards Board has adopted an Accounting Standards Update (“ASU”) 2016-13, that will be effective for reporting periods beginning after December 15, 2019. This standard changes the accounting methodology used to determine the allowance for loan losses from an incurred loss model to a current expected credit loss (“CECL”) model. The CECL model will require the Bank to maintain at each periodic reporting date an allowance for loan losses in an amount that is equal to its estimate of expected lifetime credit losses on the loans in its portfolio. Utilization of the CECL model may require the Bank to increase its allowance for loan losses and will increase the types and amount of data the Bank will need to collect and consider in determining an appropriate level for its allowance for loan losses.

Changes in interest rates, the shape of the yield curve and a sustained period of low interest rates could negatively impact our earnings.

The Bank’s results of operations are subject to risk resulting from interest rate fluctuations and having assets and liabilities that have different maturity, repricing and prepayment/withdrawal characteristics. The Bank defines interest rate risk as the risk that the Bank's net interest income and/or economic value of equity (“EVE”) will change when interest rates change. The Bank has addressed interest rate risk by adopting a board committee approved interest rate risk policy which sets forth quantitative risk limits and calls for monitoring and controlling interest rate risk through a variety of techniques including the use of interest rate sensitivity models and traditional repricing gap analysis. Management utilizes a consultant with expertise in bank asset liability management to aid them in these efforts.

A sustained period of low interest rates and a flattening of the yield curve over the past several years have resulted in continued pressure on our net interest margin. The historic low interest rate environment appears to be ending as the Federal Reserve Bank (“FRB”) has slowly changed from an accommodative monetary policy to a tightening of monetary policy. The FRB has increased the federal funds target rate 100 basis points since December 2016 and has stated that it plans to increase rates an additional three times in 2018 if economic growth continues to expand and the unemployment rate remains at historic lows.

Increases in the federal funds target rate have already begun to exert upward pressure on non-maturity deposit liability rates and the cost of overnight borrowings. Should short-term rates continue to increase and a further flattening of the yield curve were to occur, the Bank’s loans and investment securities could reprice slower than its interest-bearing liabilities, which would have a negative effect on net interest income. However, over a longer period of time, the effect on the Bank’s earnings should be positive primarily because with the passage of time the yield curve should steepen and more loans and investment securities would reprice at the higher rates and there would be no offsetting increase in interest expense for those interest-earning assets funded by noninterest-bearing checking deposits and capital.

When interest rates decline, borrowers tend to refinance higher rate loans at lower rates and prepayments on mortgage loans and mortgage-backed securities are elevated. Under those circumstances, the Bank may not be able to reinvest the resulting cash flows in new interest-earning assets with rates as favorable as those on the prepaid loans or investment securities. In addition, subject to the floors contained in many of the Bank's loan agreements, the Bank's loans at variable interest rates may adjust to lower rates at their reset dates. While lower rates could reduce the Bank's cost of funds on non-maturity deposits, certificates of deposits and FHLB advances, the cost savings would be somewhat constrained as overall funding rates have not increased significantly from the decade-long historic low interest rate environment and a significant portion of the Bank's funding comes from noninterest-bearing checking deposits and capital.

The Bank may not have sufficient funds or funding sources to meet liquidity demands.

Liquidity risk is the risk that the Bank will not have sufficient funds to accommodate loan growth, meet deposit outflows or make contractual payments on borrowing arrangements. The Bank has addressed liquidity risk by adopting a board committee approved liquidity policy and liquidity contingency plan that set forth quantitative risk limits and a protocol for responding to liquidity stress conditions should they arise. The Bank encounters significant competition in its market area from branches of larger banks, various community banks, credit unions and other financial services organizations. This, in addition to consumer confidence in the equity markets, could cause deposit outflows, and such outflows could be significant.

The Bank has both internal and external sources of liquidity that can be used to fund loan growth and accommodate deposit outflows. The Bank's primary internal sources of liquidity are overnight investments, maturities and monthly payments on its investment securities and loan portfolios, operations and investment securities designated as available-for-sale.

The Bank is a member of the FRB of New York and the FHLB of New York, and has a federal funds line with a commercial bank. In addition to customer deposits, the Bank's primary external sources of liquidity are secured borrowings from the FHLB of New York and FRB of New York. In addition, the Bank can purchase overnight federal funds under its existing line. However, the Bank's FRB of New York membership, FHLB of New York membership and federal funds line do not represent legal commitments to extend credit to the Bank. The amount that the Bank can potentially borrow is currently dependent on, among other things, the amount of unencumbered eligible securities and loans that the Bank can use as collateral and the collateral margins required by the lenders.

A decline in the Corporation's market capitalization could negatively impact the price, trading volume and liquidity of our common stock.

The Corporation's market capitalization on December 31, 2017 was approximately $703 million, exceeding the $500 million market capitalization which may make the Corporation's common stock more attractive to certain investors. In addition, the Corporation's common stock is included in the Russell 3000 and Russell 2000 Indexes, which are reconstituted annually. Upon reconstitution in May 2017, the average market capitalization of companies in the Russell 2000 Index was $2.0 billion, the median market capitalization was $784 million, the capitalization of the largest company in the index was $3.4 billion and the capitalization of the smallest company in the index was $144 million. The Corporation believes that a market capitalization in excess of $500 million and inclusion in the Russell indexes have positively impacted the price, trading volume and liquidity of its common stock. Conversely, if the Corporation's market capitalization falls below the minimum necessary to be included in the indexes at any future reconstitution date, the opposite could occur.

Changes in national and local economic conditions could negatively impact our financial condition and results of operations.

Although the economy has improved, national and local economic conditions could deteriorate. This poses risks to both the Corporation's business and the banking industry as a whole. Specific risks include reduced loan demand from quality borrowers; increased competition for loans; increased loan loss provisions resulting from deterioration in loan quality; reduced net interest income and net interest margin caused by a sustained period of low interest rates; interest rate volatility; price competition for deposits due to liquidity concerns or otherwise; volatile equity markets; and higher cost to attract capital to support growth.

In addition to the significant risks posed by economic conditions, the Corporation could experience deposit outflows as national and local economic conditions improve and investors pursue alternative investment opportunities.

The Bank's internal controls and those of its third-party service providers may be ineffective or circumvented, resulting in significant financial loss, adverse action by governmental bodies and damaged reputation.

The Corporation relies on its system of internal controls and the internal controls of its third-party service providers ("TPSPs") to ensure that transactions are captured, recorded, processed and reported properly; confidential customer information is safeguarded; and fraud by employees and persons outside the Corporation is detected and prevented. The Corporation's internal controls and/or those of its TPSPs may prove to be ineffective or employees of the Corporation and/or its TPSPs may fail to comply with or override the controls, either of which could result in significant financial loss to the Corporation, adverse action by bank regulatory authorities or the SEC and damage to the Corporation's reputation.

The Bank's inability to keep pace with technological advances could negatively impact our business, financial condition and results of operations.

The delivery of financial products and services has increasingly become technology-driven. The Bank's ability to competitively meet the needs of its customers in a cost-efficient manner is dependent on its ability to keep pace with technological advances and to invest in new technology as it becomes available. The ability to keep pace with technological change is important, and failure to do so could have a material adverse impact on the Corporation's business, financial condition and results of operations.

System failures, interruptions and security breaches could negatively impact our customers, reputation, and results of operations.

The Bank outsources most of its data processing to TPSPs. If TPSPs encounter difficulties, or if the Bank has difficulty communicating with them, the Bank's ability to adequately process and account for customer transactions could be affected, and the Bank's business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through TPSPs. The Bank's website and online banking products have been the target of cyber attacks in the past. While the Bank and its TPSPs believe they have successfully blocked attempts to infiltrate the Bank's systems, there is always the possibility that successful attacks have not yet been identified and that future attacks may not be blocked. A significant cybersecurity incident may be determined to be material insider information and would prohibit corporate insiders from trading in Company stock until appropriate public disclosures are made.

The Board Audit Committee has oversight responsibility for cybersecurity risk, which it administers through periodic meetings with management and the approval of information technology and cybersecurity policies. In this regard, board committee approved policies address information security, IT vulnerability assessment, cybersecurity incident response and electronic communications. These policies are intended to prevent, detect and respond to cybersecurity incidents. In addition, these policies prevent or limit the impact of systems failures, interruptions and security breaches and rely on commonly used security and processing systems to provide the security and authentication necessary for the processing of data. The Bank makes use of logon and user access controls, multifactor and out of band authentication, transaction limits, firewalls, antivirus software, intrusion protection monitoring, vulnerability scans and independent penetration testing. The Bank also ensures employee awareness of cybersecurity trends. System failures or interruptions are addressed in the board committee approved emergency and disaster recovery policy and business continuity policy. In addition, for TPSPs of data processing and other significant services, the board committee approved vendor management policy and procedures require reviews of audit reports prepared by independent registered public accounting firms regarding their financial condition and the effectiveness of their internal controls.

These precautions may not protect our systems from all compromises or breaches of security and there can be no assurance that such events will not occur or that they will be adequately addressed if they do. The Bank carries a cyber liability insurance policy to mitigate the amount of any financial loss. However, the occurrence of any systems failure, interruption or breach of security could damage the Bank’s reputation and result in a loss of customers and business, could subject the Bank to additional regulatory scrutiny, or could expose the Bank to civil litigation and possible financial liability beyond any insurance coverage. Any of these occurrences could have a material adverse effect on the Corporation’s financial condition and results of operations.

The inability to attract, motivate or retain qualified key personnel could negatively impact our performance.

The Corporation’s future success depends in part on the continued service of its executive officers and other key members of management and its staff, as well as its ability to continue to attract, motivate and retain additional highly qualified employees. The loss of services of key personnel and our inability to timely recruit or promote qualified replacements could have an adverse effect on the Bank’s business, operating results and financial condition. Their skills, knowledge of the Bank’s market and years of industry experience may be difficult to replace.

Changes in laws, government regulation and supervisory guidance could have a significant negative impact on our financial condition and results of operations.

The Corporation and the Bank are subject to regulation, supervision and examination by, among others, the Federal Reserve Board, OCC and FDIC. The FDIC also insures the Bank’s deposits. Regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of depositors. Regulatory requirements affect virtually all aspects of the Corporation’s and the Bank’s business, including, among other things, investment practices, lending practices, deposit offerings and capital levels. The regulators have extensive discretion in connection with their supervisory and enforcement activities, including imposing restrictions on bank operations and expansion plans, imposing deposit insurance premiums and other assessments, setting required levels for the allowance for loan losses, capital and liquidity, and imposing restrictions on the ability to pay cash dividends and other capital distributions to stockholders. Changes in laws, regulations and supervisory guidance, or the Corporation’s and the Bank’s compliance with these laws and regulations as judged by the regulators, could have a significant negative impact on the Corporation’s financial condition and results of operations. The Corporation manages the risk of noncompliance with laws and regulations by having board committee approved compliance policies, hiring and retaining employees with the experience and skills necessary to address compliance on an ongoing basis, and consulting, when necessary with legal counsel and other outside experts on compliance matters.

We may be adversely affected by recent changes in U.S. tax laws.

The Tax Cuts and Jobs Act (“Tax Act”), which was enacted in December 2017, is likely to have both positive and negative effects on our financial performance. For example, the new legislation will result in a reduction in the federal corporate tax rate from 35% to 21% beginning in 2018, which will have a favorable impact on our earnings and capital generation abilities. However, the new legislation also enacted limitations on certain deductions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for home equity loans, (3) a limitation on the deductibility of business interest expense and (4) a limitation on the deductibility of property taxes and state and local income taxes.

The recent changes in the tax laws may have an adverse effect on the market for, and the valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, like New York. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of properties securing loans in our portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Weather-related and terrorist events could cause significant harm to our business.

Weather-related events have adversely impacted our market area, especially flood prone areas located near coastal waters and otherwise. Significant flooding and other storm-related damage may become more common in the future. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communication systems, and the metropolitan New York area remains a central target for potential acts of terrorism. Weather-related and terrorist events could cause significant damage, impact the stability of our facilities and result in additional operating expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, results of operations and financial condition.

Competition within our market area could limit our ability to increase interest-earning assets.

Competition in the banking and financial services industry is intense. In our market area, we compete with numerous commercial banks, savings institutions, mortgage brokers, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have substantially greater resources and lending limits than we have and have greater name recognition and market presence that benefit them in attracting business. In addition, large competitors may be able to price loans and deposits more aggressively than we do. Competitive forces may limit our ability to increase our interest-earning assets. Our profitability depends upon our continued ability to successfully compete in our market area. For additional information see “Item 1 – Business – Competition.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation neither owns nor leases any real estate. Office facilities of the Corporation and the Bank’s main office are located at 10 Glen Head Road, Glen Head, New York in a building owned by the Bank.

As of December 31, 2017, the Bank owns 23 buildings and leases 38 other facilities, all of which are in Nassau and Suffolk Counties, Long Island and the New York City boroughs of Queens, Brooklyn and Manhattan. The Corporation believes that the physical facilities of the Bank are suitable and adequate at present and are being fully utilized.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, the Corporation is party to various legal actions which are incidental to the operation of its business. Although the ultimate outcome and amount of liability, if any, with respect to these legal actions cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is believed to be immaterial to the Corporation's consolidated financial position, results of operations and cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation’s common stock trades on the NASDAQ Capital Market tier of the NASDAQ Stock Market under the symbol “FLIC.” At December 31, 2017, there were 585 stockholders of record of the Corporation’s Common Stock. The number of stockholders of record includes banks and brokers who act as nominees, each of whom may represent more than one stockholder. The following table sets forth high and low sales prices and dividends declared, by quarter, for the years ended December 31, 2017 and 2016.

	2017			2016		
Quarter	High	Low	Dividends Declared	High	Low	Dividends Declared
First	$ 29.30	$ 26.00	$ .14	$ 20.33	$ 17.43	$ .13
Second	30.15	25.60	.14	21.29	18.06	.13
Third	31.10	26.05	.15	22.35	18.68	.14
Fourth	33.50	27.50	.15	29.67	20.99	.14

Performance Graph

The following performance graph compares the Corporation's total stockholder return with the NASDAQ U.S. Benchmark and NASDAQ U.S. Benchmark Banks Indexes over a 5-year measurement period assuming $100 invested on January 1, 2013, and dividends reinvested in the Corporation’s stock.

Issuer Purchase of Equity Securities

The Corporation did not repurchase any shares of its own common stock in the fourth quarter of 2017.

ITEM 6. SELECTED FINANCIAL DATA

The following is selected consolidated financial data for the past five years, adjusted as appropriate to reflect the Corporation’s stock splits. This data should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying consolidated financial statements and related notes.

(dollars in thousands, except per share data)	2017	2016	2015	2014	2013
INCOME STATEMENT DATA:					
Interest Income	$ 118,265	$ 104,123	$ 92,135	$ 81,976	$ 74,851
Interest Expense	21,709	18,002	16,529	15,048	12,364
Net Interest Income	96,556	86,121	75,606	66,928	62,487
Provision for Loan Losses	4,854	3,480	4,317	3,189	2,997
Net Income	35,122	30,880	25,890	23,014	21,300
PER SHARE DATA:					
Basic Earnings	$ 1.44	$ 1.35	$ 1.23	$ 1.11	$ 1.04
Diluted Earnings	1.43	1.34	1.22	1.10	1.03
Cash Dividends Declared	.58	.55	.52	.48	.45
Dividend Payout Ratio	40.56 %	41.04 %	42.62 %	43.64 %	43.69
Book Value	$ 14.37	$ 12.90	$ 11.85	$ 11.20	$ 10.04
Tangible Book Value	14.36	12.90	11.84	11.19	10.03
BALANCE SHEET DATA AT YEAR END:					
Total Assets	$ 3,894,708	$ 3,510,320	$ 3,130,343	$ 2,721,494	$ 2,399,89
Loans	2,950,352	2,545,421	2,248,183	1,804,819	1,477,93
Allowance for Loan Losses	33,784	30,057	27,256	23,221	20,848
Deposits	2,821,997	2,608,717	2,284,675	1,985,025	1,782,12
Borrowed Funds	704,938	586,224	577,214	481,486	395,463
Stockholders' Equity	354,450	305,830	250,936	233,303	206,556
AVERAGE BALANCE SHEET DATA:					
Total Assets	$ 3,695,850	$ 3,329,308	$ 2,897,548	$ 2,515,103	$ 2,240,13
Loans	2,758,116	2,364,187	1,990,823	1,584,198	1,286,22
Allowance for Loan Losses	32,022	28,238	24,531	21,554	19,847
Deposits	2,812,733	2,590,988	2,215,883	1,922,172	1,747,88
Borrowed Funds	540,307	432,554	419,372	347,946	272,737
Stockholders' Equity	334,088	290,806	243,330	224,585	203,125
FINANCIAL RATIOS:					
Return on Average Assets (ROA)	.95 %	.93 %	.89 %	.92 %	.95
Return on Average Stockholders' Equity (ROE)	10.51 %	10.62 %	10.64 %	10.25 %	10.49
Average Equity to Average Assets	9.04 %	8.73 %	8.40 %	8.93 %	9.07

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview – 2017 Versus 2016

Analysis of 2017 Earnings. Net income and diluted earnings per share ("EPS") for 2017 were $35.1 million and $1.43, respectively, representing increases of 13.7% and 6.7%, respectively, over the comparable 2016 amounts. Dividends per share increased 5.5% from $.55 for 2016 to $.58 for 2017. Returns on average assets and average equity for 2017 were .95% and 10.51%, respectively, as compared to .93% and 10.62%, respectively, for 2016.

Net income for 2017 increased $4.2 million over 2016. The increase is primarily attributable to increases in net interest income of $10.4 million, or 12.1%, and noninterest income, before securities gains and losses, of $1.2 million, or 15.8%. The impact of these items was partially offset by securities losses of $1.9 million and increases in the provision for loan losses of $1.4 million, noninterest expense, before debt extinguishment costs of $3.2 million, or 6.3%, and income tax expense of $840,000.

The increase in net interest income is mainly attributable to growth in average interest-earning assets of $335.6 million, or 10.4%, which was driven by an increase in the average balance of loans of $393.9 million, or 16.7%. Although most of the loan growth occurred in residential and commercial mortgage loans, commercial and industrial loans also grew with an increase in average outstandings of $19.6 million, or 18.9%. The growth in loans was funded mainly by growth in the average balances of noninterest-bearing checking deposits of $81.0 million, or 10.2%, interest-bearing deposits of $140.8 million, or 7.8%, short-term borrowings of $74.7 million and stockholders' equity of $43.3 million, or 14.9%. Also funding the growth in loans was a decrease in the average balance of taxable investment securities of $46.7 million, or 12.5%.

The increase in noninterest income, before securities gains and losses, of $1.2 million, or 15.8%, is primarily attributable to increases in income from BOLI of $530,000, service charges on deposit accounts of $126,000, checkbook income of $116,000 and Investment Management Division income of $90,000. Also contributing to the increase in noninterest income were refunds of sales taxes, real estate taxes and telecommunications charges of $167,000.

The increase in noninterest expense, before debt extinguishment costs, of $3.2 million, or 6.3%, is primarily attributable to increases in salaries of $2.0 million, or 9.2%, employee benefits expense of $261,000, or 3.8%, occupancy and equipment expense of $981,000, or 10.6%, and marketing expense of $389,000. Also contributing to the increase was a valuation allowance of $725,000 recorded in the fourth quarter of 2017 on other real estate owned. The impact of these items was partially offset by decreases in consulting fees of $635,000, computer and telecommunications expense of $743,000 and FDIC insurance expense of $201,000.

During the fourth quarter of 2017, the Bank sold approximately $88.6 million of mortgage-backed securities with a yield of 1.55% and an expected average life of 3.4 years and reinvested substantially all of the proceeds in mortgage-backed securities with a yield of 2.61% and an expected average life of 4.9 years. The sale resulted in a pretax loss of $1.9 million and an after-tax loss of $1.3 million, or $.05 per share. Due to changes in federal tax law enacted in December 2017, most of the future incremental income will be taxed at a federal tax rate of 21% while the $1.9 million pre-tax loss in 2017 will receive a federal tax benefit at a rate of 35%. Considering both the future incremental income on the replacement securities and the change in the federal tax rate effective in 2018, the payback period for the 2017 loss is approximately 1.7 years. The securities loss negatively impacted 2017 ROA and ROE by 3 and 38 basis points, respectively.

The $1.4 million increase in the provision for loan losses in 2017 is mainly due to more loan growth, an increase in net chargeoffs of $448,000 from $679,000 in 2016 to $1,127,000 in 2017 and a decline in historical loss rates in 2016. The impact of these items was partially offset by improved economic conditions in 2017 and a $510,000 decline in specific reserves on loans individually deemed to be impaired.

The $840,000 increase in income tax expense is due to higher pre-tax earnings in 2017 and a decline in income from tax-exempt securities. Another important contributor to the increase in income tax expense is the fact that in 2017 the Corporation was subject to New York State (“NYS”) and New York City (“NYC”) taxes based on capital rather than business income and did not record the potential NYS and NYC tax benefits of deductible temporary differences that arose in 2017. The impact of these items was partially offset by a $909,000 credit to income tax expense in 2017 resulting from a reduction in the Corporation’s net deferred tax liability to reflect the decrease in the federal income tax rate effective January 1, 2018. In addition, the Corporation realized higher tax benefits in 2017 from stock awards and BOLI. The vesting and exercise of stock awards resulted in tax benefits over and above those accrued during the vesting period of $762,000 and $385,000 in 2017 and 2016, respectively.

Analysis of Fourth Quarter 2017 Earnings. Net income for the fourth quarter of 2017 was $7.6 million, up slightly from $7.5 million in the same quarter last year. The increase is primarily attributable to increases in net interest income and income from BOLI of $1.9 million and $188,000, respectively, and decreases in the provision for loan losses and income tax expense of $319,000 and $968,000, respectively. These items were substantially offset by increases in salaries and occupancy and equipment expense of $536,000 and $380,000, respectively, and the aforementioned securities loss and valuation allowance of $1.9 million and $725,000, respectively. The securities loss negatively impacted fourth quarter 2017 ROA and ROE by 13 and 141 basis points, respectively. The decrease in the provision for loan losses was primarily driven by a decrease in specific reserves in the fourth quarter of 2017 of $821,000 versus an increase of $482,000 in the same quarter last year, as partially offset by higher net chargeoffs in the 2017 quarter and adjustments to qualitative factors used in determining the allowance for loan losses. The decrease in income tax expense occurred because of lower pretax earnings in the fourth quarter of 2017 and for the same reasons for a decrease discussed above with respect to the full year periods. Other fourth quarter variances occurred for substantially the same reasons discussed above with respect to the full year periods.

Asset Quality. The Bank’s allowance for loan losses to total loans decreased three basis points from 1.18% at year-end 2016 to 1.15% at year-end 2017. The decrease is primarily due to an improvement in the local housing market and overall economic conditions and a decline in specific reserves.

The overall credit quality of the Bank’s loan portfolio remains excellent. Nonaccrual loans amounted to $1.0 million, or .03% of total loans outstanding, at December 31, 2017, compared to $2.6 million, or .10%, at December 31, 2016. The decrease is attributable to paydowns and loans returned to an accrual status based on the demonstrated ability of the borrowers to service their debt, as partially offset by new nonaccrual loans. Troubled debt restructurings amounted to $1.0 million, or .04% of total loans outstanding, at December 31, 2017, representing a decrease of $498,000 from year-end 2016. The decrease was primarily attributable to payoffs of some loans and paydowns on other loans. Troubled debt restructurings at year-end include $785,000 that are performing in accordance with their modified terms and $100,000 that are nonaccrual and included in the aforementioned amount of nonaccrual loans. Loans past due 30 through 89 days amounted to $2.8 million, or .09% of total loans outstanding, at December 31, 2017, compared to $1.1 million, or .04%, at December 31, 2016. Management does not believe that the increase in loans past due 30 through 89 days is indicative of a deterioration in the overall credit quality of the Bank’s loan portfolio.

The credit quality of the Bank’s securities portfolio also remains excellent. The Bank’s mortgage securities are backed by mortgages underwritten on conventional terms, with 74% of these securities being full faith and credit obligations of the U.S. government and the balance being obligations of U.S. government sponsored entities. The remainder of the Bank’s securities portfolio principally consists of high quality, general obligation municipal securities rated AA or better by major rating agencies. In selecting municipal securities for purchase, the Bank uses credit agency ratings for screening purposes only and then performs its own credit analysis. On an ongoing basis, the Bank periodically assesses the credit strength of the municipal securities in its portfolio and makes decisions to hold or sell based on such assessments.

Key Strategic Initiatives. Key strategic initiatives will continue to include loan and deposit growth through effective relationship management, targeted solicitation efforts, new product offerings and continued expansion of the Bank’s branch distribution system on Long Island and in the New York City boroughs of Queens and Brooklyn. With respect to loan growth, the Bank will continue to prudently manage concentration risk and further develop its broker and correspondent relationships. Small business credit scored loans, equipment finance loans and SBA loans, along with the Bank’s traditional commercial and industrial loan products, will be originated to diversify the Bank’s loan portfolio and help mitigate the impact of the low rate environment on the Bank’s earnings.

The Bank achieved a significant milestone in December 2017 by opening its 50th branch which is located in Astoria, Queens. The Bank's growing branch distribution system consists of branches in Nassau and Suffolk Counties, Long Island and the New York City boroughs of Queens, Brooklyn and Manhattan. The Bank expects to open three or four more branches in Queens and Brooklyn over the next twelve months and continues to evaluate sites for further branch expansion. In addition to loan and deposit growth, management is also focused on growing noninterest income from existing and potential new sources, which may include the development or acquisition of fee-based businesses.

Tax Reform. On December 22, 2017, the Tax Act was signed into law. The most significant impact of the Tax Act on the Corporation is a reduction in the federal corporate tax rate from 35% to 21% commencing in 2018. Some of the other provisions affecting the Corporation are:

- Advance refunding municipal bonds issued after December 31, 2017 will no longer be tax-exempt.
- The Corporation will no longer be able to deduct any compensation in excess of $1 million paid to a named executive officer.
- Bonus depreciation is increased to 100% for qualified property placed in service after September 27, 2017 and before January 1, 2023, with phase downs over the next four years.
- The immediate expensing of tangible property that qualifies as Internal Revenue Code Section 179 property is increased to $1 million with an increase of the phase-out threshold to $2.5 million.

The Corporation's effective tax rate for 2017 is 22.0%. Considering, among other things, the changes included in the Tax Act, the Corporation currently expects that its effective tax rate for 2018 will be in the range of 14% to 16%.

Challenges We Face. Beginning in December 2015, there have been five 25 basis point increases in the federal funds target rate to its current level of 1.25% to 1.50%. These increases have exerted upward pressure on non-maturity deposit rates and have caused these rates and overnight borrowing rates to move upward. Further increases in the federal funds target rate are expected in the foreseeable future. At the same time, the Bank generally lends and invests at a spread to intermediate and long-term interest rates which remain relatively low and without what management believes to be near term prospects for sustained improvement. This together with significant price competition for loans in the Bank's marketplace have resulted in suboptimal investing and lending rates. These factors are expected to continue to exert downward pressure on net interest margin.

The banking industry continues to be faced with new and complex regulatory requirements and enhanced supervisory oversight. The financial markets expect that regulatory relief will be forthcoming, but the timing, magnitude and positive impact of any such relief are yet to be determined. In the current environment, banking regulators are increasingly concerned about, among other things, growth, commercial real estate concentrations, underwriting of commercial real estate and commercial and industrial loans, capital levels, cyber security and predatory sales practices. Regulatory requirements and enhanced supervisory oversight are exerting downward pressure on revenues and upward pressure on required capital levels and the cost of doing business.

Overview – 2016 Versus 2015

Analysis of 2016 Earnings. Net income and EPS for 2016 were $30.9 million and $1.34, respectively, representing increases of 19.3% and 9.8%, respectively, over the comparable 2015 amounts. Dividends per share increased 5.8% from $.52 for 2015 to $.55 for 2016. Returns on average assets and average equity for 2016 were .93% and 10.62%, respectively, as compared to .89% and 10.64%, respectively, for 2015.

Net income for 2016 increased $5.0 million over 2015. The increase was primarily attributable to an increase in net interest income of $10.5 million, or 13.9%, and a decrease in the provision for loan losses of $837,000. The impact of these items was partially offset by increases in noninterest expense, before debt extinguishment costs, of $4.7 million and income tax expense of $1.6 million.

The increase in net interest income was primarily driven by growth in average interest-earning assets of $431.2 million, or 15.4%, partially offset by a seven basis point decline in net interest margin. Average interest-earning assets grew mostly because of increases in the average balances of loans of $373.4 million, or 18.8%, and securities of $45.6 million, or 5.7%. Although most of the loan growth occurred in mortgage loans, commercial and industrial loans also grew with an increase in average outstandings of $23.5 million, or 27.5%. The growth in loans and securities was primarily funded by growth in the average balances of noninterest-bearing checking deposits of $56.0 million, or 7.6%, interest-bearing deposits of $319.1 million, or 21.6%, and stockholders' equity of $47.5 million, or 19.5%.

The decrease in the provision for loan losses for 2016 versus the prior year was largely due to lesser loan growth, a decline in historical loss rates and a lower increase in specific reserves. These items were partially offset by higher net chargeoffs in 2016.

The increase in noninterest expense, before debt extinguishment costs, of $4.7 million, or 10.4%, was largely attributable to increases in salaries, employee benefits expense, consulting expense, occupancy and equipment expense and computer and telecommunications expense. The increase in consulting expense included a one-time charge of $800,000 in 2016 for advisory services rendered in renegotiating the Bank's data processing contract. The Corporation expects that the cost savings negotiated by the consultant over the life of the contract will far exceed the one-time consulting charge.

In the fourth quarter of 2016, the Corporation adopted ASU 2016-09 "Improvements to Employee Share-Based Payment Accounting" effective as of January 1, 2016. Adoption of the ASU increased 2016 net income through a credit to income tax expense in the amount of $385,000, or $.02 per share.

The increase in income tax expense was attributable to higher pre-tax earnings in 2016 as compared to the prior year, partially offset by the credit to income tax expense from the adoption of ASU 2016-09, additional New York State income tax benefits derived from the Corporation's captive REIT and the inclusion of a one-time charge of $402,000 in 2015 caused by changes in New York City tax law.

Analysis of Fourth Quarter 2016 Earnings. Net income for the fourth quarter of 2016 was $7.5 million, an increase of $900,000, or 13.6%, over $6.6 million earned in the same quarter of 2015. EPS was $.31 for the fourth quarter of 2016, unchanged from the fourth quarter of 2015. The increase in net income was primarily attributable to an increase in net interest income of $2.1 million, partially offset by increases in salaries of $133,000, occupancy and equipment expense of $182,000 and income tax expense of $414,000, and a partial writedown of $168,000 on the Bank's investment in a trade association. The increases in net interest income, salaries and occupancy and equipment expense occurred for substantially the same reasons discussed with respect to the full year periods. Excluding the aforementioned one-time charge of $402,000, income tax expense also increased for the same reasons discussed with respect to the full year periods.

Asset Quality. The Bank's allowance for loan losses to total loans decreased three basis points from 1.21% at year-end 2015 to 1.18% at year-end 2016. The decrease was primarily due to improved economic conditions and a reduction in the historical loss component of the allowance for loan losses.

The credit quality of the Bank's loan portfolio at year-end 2016 was excellent. Nonaccrual loans amounted to $2.6 million, or .10% of total loans outstanding, compared to $1.4 million, or .06%, at December 31, 2015, and troubled debt restructurings amounted to $1.5 million, or .06% of total loans outstanding at December 31, 2016. Of the troubled debt restructurings, $757,000 were performing in accordance with their modified terms and $788,000 were nonaccrual and included in the aforementioned amount of nonaccrual loans. Troubled debt restructurings declined $2.9 million during 2016 from $4.5 million at year-end 2015. The decrease was primarily attributable to the payoff of two loans to one borrower, partially offset by two loans that were restructured in troubled debt restructurings during the year. Loans past due 30 through 89 days amounted to $1.1 million, or .04% of total loans outstanding, at December 31, 2016, compared to $1.0 million, or .04%, at December 31, 2015.

The credit quality of the Bank's securities portfolio at year-end 2016 was also excellent. The Bank's mortgage securities were backed by mortgages underwritten on conventional terms, with 60% of these securities being full faith and credit obligations of the U.S. government and the balance being obligations of U.S. government sponsored entities. The remainder of the Bank's securities portfolio principally consisted of high quality, general obligation municipal securities rated AA or better by major rating agencies.

Application of Critical Accounting Policies

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported asset and liability balances and revenue and expense amounts. Our determination of the allowance for loan losses is a critical accounting estimate because it is based on our subjective evaluation of a variety of factors at a specific point in time and involves difficult and complex judgments about matters that are inherently uncertain. In the event that management's estimate needs to be adjusted based on, among other things, additional information that comes to light after the estimate is made or changes in circumstances, such adjustment could result in the need for a significantly different allowance for loan losses and thereby materially impact, either positively or negatively, the Bank's results of operations.

The Bank's Allowance for Loan and Lease Losses Committee ("ALLL Committee"), which is a management committee chaired by the Chief Credit Officer, meets on a quarterly basis and is responsible for determining the allowance for loan losses after considering, among other things, the results of credit reviews performed by the Bank's independent loan review consultants and the Bank's credit department. In addition, and in consultation with the Bank's Chief Financial Officer and Chief Risk Officer, the ALLL Committee is responsible for implementing and maintaining accounting policies and procedures surrounding the calculation of the required allowance. The Board Loan Committee reviews and approves the Bank's Loan Policy at least once each calendar year. The Bank's allowance for loan losses is reviewed and ratified by the Board Loan Committee on a quarterly basis and is subject to periodic examination by the OCC whose safety and soundness examination includes a determination as to the adequacy of the allowance for loan losses to absorb probable incurred losses.

The first step in determining the allowance for loan losses is to identify loans in the Bank's portfolio that are individually deemed to be impaired and then measure impairment losses based on either the fair value of collateral or the discounted value of expected future cash flows. In estimating the fair value of real estate collateral, management utilizes appraisals or evaluations adjusted for costs to dispose and a distressed sale adjustment, if needed. Estimating the fair value of collateral other than real estate is also subjective in nature and sometimes requires difficult and complex judgments. Determining expected future cash flows can be more subjective than determining fair values. Expected future cash flows could differ significantly, both in timing and amount, from the cash flows actually received over the loan's remaining life.

In addition to estimating losses for loans individually deemed to be impaired, management also estimates collective impairment losses for pools of loans that are not specifically reviewed. The Bank's highest average annualized loss experience over periods of 24, 36, 48 or 60 months is generally the starting point in determining its allowance for loan losses for each pool of loans. Management believes that this approach appropriately reflects losses from the current economic cycle and those incurred losses in the Bank's loan portfolio. However, since future losses could vary significantly from those experienced in the past, on a quarterly basis management adjusts its historical loss experience to reflect current conditions. In doing so, management considers a variety of general qualitative factors and then subjectively determines the weight to assign to each in estimating losses. The factors include, among others: (1) delinquencies, (2) economic conditions as judged by things such as national and local unemployment levels, (3) changes in value of underlying collateral as judged by things such as median home prices, commercial vacancy rates and forecasted vacancy and rental rates in the Bank's service area, (4) trends in the nature and volume of loans, (5) concentrations of credit, (6) changes in lending policies and procedures, (7) experience, ability and depth of lending staff, (8) changes in the quality of the loan review function, (9) environmental risks, and (10) loan risk ratings. Substantially all of the Bank's allowance for loan losses allocable to pools of loans that are collectively evaluated for impairment results from these qualitative adjustments to historical loss experience. Because of the nature of the qualitative factors and the difficulty in assessing their impact, management's resulting estimate of losses may not accurately reflect actual losses in the portfolio.

Although the allowance for loan losses has two separate components, one for impairment losses on individual loans and one for collective impairment losses on pools of loans, the entire allowance for loan losses is available to absorb realized losses as they occur whether they relate to individual loans or pools of loans.

Net Interest Income

Average Balance Sheet; Interest Rates and Interest Differential. The following table sets forth the average daily balances for each major category of assets, liabilities and stockholders' equity as well as the amounts and average rates earned or paid on each major category of interest-earning assets and interest-bearing liabilities. The average balances of investment securities include unrealized gains and losses on available-for-sale securities, and the average balances of loans include nonaccrual loans.

(dollars in thousands)	2017 Average Balance	Interest/ Dividends	Average Rate	2016 Average Balance	Interest/ Dividends	Average Rate	2015 Average Balance	Interest/ Dividends	Av Ra
Assets:									
Interest-earning bank balances	$ 25,356	$ 281	1.11 %	$ 32,711	$ 168	.51 %	$ 20,568	$ 52	.2
Investment securities:									
Taxable	327,491	7,473	2.28	374,199	7,813	2.09	355,177	7,939	2.
Nontaxable (1)	461,149	20,744	4.50	465,457	21,056	4.52	438,835	20,902	4.
Loans (1)	2,758,116	97,040	3.52	2,364,187	82,469	3.49	1,990,823	70,573	3.
Total interest-earning assets	3,572,112	125,538	3.51	3,236,554	111,506	3.45	2,805,403	99,466	3.
Allowance for loan losses	(32,022)			(28,238)			(24,531)		
Net interest-earning assets	3,540,090			3,208,316			2,780,872		
Cash and due from banks	31,555			30,450			28,665		
Premises and equipment, net	36,279			31,597			29,011		
Other assets	87,926			58,945			59,000		
	$ 3,695,850			$ 3,329,308			$ 2,897,548		
Liabilities and Stockholders' Equity:									
Savings, NOW & money market deposits	$ 1,635,044	7,113	.44	$ 1,501,096	5,344	.36	$ 1,159,573	2,564	.2
Time deposits	305,029	5,479	1.80	298,194	5,107	1.71	320,626	5,987	1.
Total interest-bearing deposits	1,940,073	12,592	.65	1,799,290	10,451	.58	1,480,199	8,551	.5
Short-term borrowings	132,137	1,345	1.02	57,395	296	.52	55,134	183	.3
Long-term debt	408,170	7,772	1.90	375,159	7,255	1.93	364,238	7,795	2.

Total interest-bearing liabilities	2,480,380	21,709	.88	2,231,844	18,002	.81	1,899,571	16,529	.8
Checking deposits	872,660			791,698			735,684		
Other liabilities	8,722			14,960			18,963		
	3,361,762			3,038,502			2,654,218		
Stockholders' equity	334,088			290,806			243,330		
	$ 3,695,850			$ 3,329,308			$ 2,897,548		
Net interest income (1)		$ 103,829			$ 93,504			$ 82,937	
Net interest spread (1)			2.63 %			2.64 %			2.
Net interest margin (1)			2.91 %			2.89 %			2.

(1) Tax-equivalent basis. Interest income on a tax-equivalent basis includes the additional amount of interest income that would have been earned if the Corporation's investment in tax-exempt loans and investment securities had been made in loans and investment securities subject to federal income taxes yielding the same after-tax income. The tax-equivalent amount of $1.00 of nontaxable income was $1.54 for each period presented, using the statutory federal income tax rate of 35%.

Rate/Volume Analysis. The following table sets forth the effect of changes in volumes, rates and rate/volume on tax-equivalent interest income, interest expense and net interest income.

	2017 versus 2016				2016 versus 2015			
	Increase (decrease) due to changes in:				Increase (decrease) due to changes in:			
(in thousands)	Volume	Rate	Rate/ Volume(1)	Net Change	Volume	Rate	Rate/ Volume(1)	Net Change
Interest Income:								
Interest-earning bank balances	$ (38)	$ 195	$ (44)	$ 113	$ 31	$ 54	$ 31	$ 116
Investment securities:								
Taxable	(975)	726	(91)	(340)	425	(523)	(28)	(126)
Nontaxable	(195)	(118)	1	(312)	1,268	(1,050)	(64)	154
Loans	13,741	711	119	14,571	13,235	(1,128)	(211)	11,896
Total interest income	12,533	1,514	(15)	14,032	14,959	(2,647)	(272)	12,040
Interest Expense:								
Savings, NOW & money market deposits	477	1,186	106	1,769	755	1,564	461	2,780
Time deposits	117	249	6	372	(419)	(495)	34	(880)
Short-term borrowings	385	288	376	1,049	7	102	4	113
Long-term debt	638	(112)	(9)	517	234	(751)	(23)	(540)
Total interest expense	1,617	1,611	479	3,707	577	420	476	1,473
Increase (decrease) in net interest income	$ 10,916	$ (97)	$ (494)	$ 10,325	$ 14,382	$ (3,067)	$ (748)	$ 10,567

(1) Represents the change not solely attributable to change in rate or change in volume but a combination of these two factors. The rate/volume variance could be allocated between the volume and rate variances shown in the table based on the absolute value of each to the total for both.

Net Interest Income – 2017 Versus 2016

Net interest income on a tax-equivalent basis was $103.8 million in 2017, an increase of $10.3 million, or 11.0%, over $93.5 million in 2016. The increase is mainly attributable to growth in average interest-earning assets of $335.6 million, or 10.4%, which was driven by an increase in the average balance of loans of $393.9 million, or 16.7%. The growth in loans was funded mainly by growth in the average balances of noninterest bearing checking deposits of $81.0 million, or 10.2%, interest-bearing deposits of $140.8 million, or 7.8%, short-term borrowings of $74.7 million and stockholders' equity of $43.3 million, or 14.9%. Also funding the growth in loans was a decrease in the average balance of taxable investment securities of $46.7 million, or 12.5%. Substantial contributors to the growth in deposits were new branch openings, the Bank's ongoing municipal deposit initiative and deposit promotions. Substantial contributors to the growth in stockholders' equity were net income, $35.3 million of capital raised in an underwritten public offering in the first half of 2016 and an ongoing issuance of shares under the Corporation's DRIP. During 2017, shares issued under the DRIP added $22.6 million to capital. These sources of capital were partially offset by the declaration of cash dividends which amounted to $14.1 million.

Net interest income also benefitted from an improvement in the Bank's net interest margin. Net interest margin was 2.91% for 2017 as compared to 2.89% for 2016. The increase in net interest margin is attributable to higher portfolio yields on loans and taxable securities partially offset by higher rates on deposits and borrowings. The cost of deposits and borrowings has been driven up, by among other things, increases in the federal funds target rate. The current level of net interest margin reflects the low interest rate environment that has persisted for an extended period of time. Management anticipates that net interest margin may be difficult to maintain and could even decline and inhibit earnings growth.

Net Interest Income – 2016 Versus 2015

Net interest income on a tax-equivalent basis was $93.5 million in 2016, an increase of $10.6 million, or 12.7%, from $82.9 million in 2015. The increase was primarily driven by growth in average interest-earning assets of $431.2 million, or 15.4%, partially offset by a seven basis point decline in net interest margin. Average interest-earning assets grew mostly because of increases in the average balances of loans of $373.4 million, or 18.8%, and securities of $45.6 million, or 5.7%.

The growth in loans and securities was primarily funded by growth in the average balances of noninterest-bearing checking deposits of $56.0 million, or 7.6%, interest-bearing deposits of $319.1 million, or 21.6%, and stockholders' equity of $47.5 million, or 19.5%. The increase in stockholders' equity was mostly attributable to retained net income and the sale of common stock through an underwritten public offering completed in the second quarter of 2016 and to a lesser extent the ongoing issuance of shares under the DRIP.

The seven basis point decline in net interest margin was primarily a result of the low rate environment. In a low interest rate environment: (1) loans are sometimes originated and investments are sometimes made at yields lower than existing portfolio yields; (2) some loans prepay in full resulting in the immediate writeoff of deferred costs; (3) prepayment speeds on mortgage-backed securities can be elevated resulting in accelerated amortization of purchase premiums; (4) the benefit of no cost funding in the form of noninterest-bearing checking deposits and capital is suppressed; and (5) the Bank’s ability to reduce deposit rates diminishes. The impact of these factors was partially offset in 2016 by increased prepayment activity accompanied by higher levels of prepayment penalty income.

Noninterest Income

Noninterest income includes service charges on deposit accounts, Investment Management Division income, gains or losses on sales of securities, income on BOLI, and all other items of income, other than interest, resulting from the business activities of the Corporation.

Noninterest income before securities gains and losses increased $1.2 million, or 15.8%, when comparing 2017 to 2016. The increase is primarily attributable to increases in income from BOLI of $530,000, service charges on deposit accounts of $126,000, checkbook income of $116,000 and Investment Management Division income of $90,000. Also contributing to the increase in noninterest income were refunds of sales taxes, real estate taxes and telecommunications charges of $167,000. BOLI income increased largely because of $25 million in BOLI purchased during the first quarter of 2017. The increase in service charges on deposit accounts is due to higher overdraft and maintenance and activity charges resulting from, among other things, growth in the number of deposit accounts. Growth in the number of deposit accounts and a reduction in fee waivers contributed to the increase in checkbook income. Investment Management Division income increased largely because equity market gains resulted in an increase in assets under management.

Noninterest income before securities gains increased $77,000, or 1.0%, when comparing 2016 to 2015. The increase was primarily attributable to proceeds of BOLI that exceeded the cash surrender value by $106,000, increases in service charges on deposit accounts of $89,000, income from the sale of mutual funds and annuities of $76,000 and cash value accretion on BOLI of $52,000. These increases were partially offset by a decrease in real estate tax refunds and a sales tax refund of $160,000 and $91,000, respectively, in 2015.

Noninterest Expense

Noninterest expense is comprised of salaries, employee benefits, occupancy and equipment expense and other operating expenses incurred in supporting the various business activities of the Corporation.

Noninterest expense before debt extinguishment costs increased $3.2 million, or 6.3%, when comparing 2017 to 2016. The increase is primarily attributable to increases in salaries of $2.0 million, or 9.2%, employee benefits expense of $261,000, or 3.8%, occupancy and equipment expense of $981,000, or 10.6%, and marketing expense of $389,000. Also contributing to the increase was a valuation allowance of $725,000 recorded in the fourth quarter of 2017 on other real estate owned. The impact of these items was partially offset by decreases in consulting fees of $635,000, computer and telecommunications expense of $743,000 and FDIC insurance expense of $201,000. The increase in salaries is primarily due to new branch openings, additions to staff in the back office, higher stock-based compensation expense and normal annual salary adjustments. The increase in employee benefits expense resulted primarily from increases in group health insurance expense of $260,000, incentive compensation expense of $101,000 and payroll tax expense of $88,000, partially offset by a decrease in retirement plan expense of $257,000. The increase in group health insurance expense resulted from increases in staff count and the rates being charged by insurance carriers and the decrease in retirement plan expense resulted from an increase in the discount rate and the favorable performance of plan assets. The increase in occupancy and equipment expense is primarily due to the operating costs of new branches, a growth-related increase in depreciation on the Bank's facilities and equipment and the cost of servicing equipment. The increase in marketing expense is largely due to new branch and deposit account promotions. The decrease in consulting fees is mainly due to a charge of $800,000 in the second quarter of 2016 for advisory services rendered in connection with renegotiating the Bank's data processing contract. The decrease in computer and telecommunications expense reflects the cost savings arising from this renegotiation. The decrease in FDIC insurance expense is attributable to a lower FDIC assessment rate effective July 1, 2016, partially offset by a growth-related increase in the assessment base.

Noninterest expense before debt extinguishment costs increased $4.7 million, or 10.4%, when comparing 2016 to 2015. The increase was largely attributable to increases in salaries of $1.4 million, or 6.9%, employee benefits expense of $868,000, or 14.4%, consulting expense of $761,000, occupancy and equipment expense of $466,000, computer and telecommunications expense of $419,000, marketing expense of $175,000 and a partial writedown of $168,000 on the Bank's investment in a trade association. The increase in salaries was primarily due to new branch openings, additions to staff in the back office, higher stock-based compensation expense and normal annual salary adjustments. The increase in employee benefits expense included a $464,000 increase in group health insurance expense resulting from increases in staff count and the rates being charged by insurance carriers. Employee benefits expense also increased because pension expense was a credit of $489,000 in 2015 versus a charge of $17,000 in 2016. Pension expense increased largely because of an increase in the number of plan participants, a market driven increase in interest on the benefit obligation and the amortization of actuarial losses resulting from, among other things, the return on plan assets falling short of expectation in 2015. The increase in consulting expense was primarily attributable to a one-time charge of $800,000 in the second quarter of 2016 for advisory services rendered in renegotiating the Bank's data processing contract. The increase in occupancy and equipment expense included the operating costs of new branches and a growth-related increase in depreciation on the Bank's facilities and equipment. The increase in computer and telecommunications expense was mainly attributable to a growth-related increase in telecommunications capacity and one-time expenses of approximately $126,000 in the second quarter of 2016.

Income Taxes

Income tax expense as a percentage of pre-tax book income ("effective tax rate") was 22.0%, 22.7% and 22.4% in 2017, 2016 and 2015, respectively. Among other things, the Corporation's effective tax rate reflects the tax benefits derived from the Bank's municipal securities portfolio, ownership of bank-owned life insurance and maintenance of a captive REIT.

2017 Versus 2016. The Corporation's effective tax rate decreased from 22.7% in 2016 to 22.0% in 2017. The decrease is almost entirely due to higher tax benefits in 2017 from stock awards and BOLI and a $909,000 credit to income tax expense in 2017 resulting from a reduction in the Corporation's net deferred tax liability to reflect the recent changes in federal tax law. The impact of these items in reducing the effective tax rate was partially offset by higher state and local taxes and a decrease in tax-exempt interest on securities and loans. The vesting and exercise of stock awards resulted in tax benefits over and above those accrued during the vesting period of $762,000 and $385,000 in 2017 and 2016, respectively, resulting in a decrease in the effective tax rate of .8%. Higher tax benefits from BOLI resulted in a decrease in the effective tax rate of .3%. The credit to income tax expense from the reduction in the Corporation's net deferred tax liability decreased the effective tax rate by 2.0%. Higher state and local taxes increased the effective tax rate by 1.1% and occurred because for 2017 the Corporation is subject to NYS and NYC taxes based on capital rather than business income and did not record the potential NYS and NYC tax benefits of deductible temporary differences arising in 2017. The decrease in tax exempt interest on securities and loans increased the effective tax rate by 1.6%.

2016 Versus 2015. The Corporation's effective tax rate increased from 22.4% in 2015 to 22.7% in 2016. The increase was primarily attributable to a decline in the percentage of pre-tax book income represented by income on tax-exempt securities, loans and bank-owned life insurance, partially offset by additional funding of the Corporation's captive

REIT and the $385,000 credit to income tax expense from the adoption in 2016 of ASU 2016-09. Tax-exempt income as a percentage of pre-tax book income declined from 43.4% in 2015 to 36.7% in 2016 increasing the effective tax rate by 2.2%. Additional funding of the Corporation's captive REIT and the adoption of ASU 2016-09 reduced the effective tax rate by 1.2% and .9%, respectively.

Financial Condition

Total assets were $3.9 billion at December 31, 2017, an increase of $384.4 million, or 11.0%, from the previous year-end. The increase was primarily attributable to growth in loans of $404.9 million, or 15.9%, partially offset by a decline in available-for-sale securities of $95.2 million, or 11.7%. The growth in loans helped to offset the negative impact of the low interest rate environment on net interest income.

Asset growth during 2017 was largely funded by the aforementioned decline in available-for-sale securities and growth in deposits, borrowings and stockholders' equity. Total deposits grew $213.3 million, or 8.2%, to $2.8 billion at December 31, 2017. The growth in deposits is comprised of increases in noninterest-bearing checking deposits of $87.8 million, or 10.9%, savings, NOW and money market deposits of $82.7 million, or 5.4%, and time deposits of $42.8 million, or 15.2%. The growth in borrowings is comprised of increases in short-term borrowings of $74.1 million and long-term debt of $44.6 million. Substantial contributors to the growth in stockholders' equity were net income and the ongoing issuance of shares under the Corporation's stock-based compensation plan and DRIP, as partially offset by dividends declared.

Investment Securities. The following table presents the estimated fair value of available-for-sale securities and amortized cost of held-to-maturity securities at December 31, 2017, 2016 and 2015.

(in thousands)	2017	2016	2015
Held-to-Maturity Securities:			
State and municipals	$ 6,970	$ 10,419	$ 12,922
Pass-through mortgage securities	311	361	576
Collateralized mortgage obligations	355	607	873
	$ 7,636	$ 11,387	$ 14,371
Available-for-Sale Securities:			
State and municipals	$ 461,323	$ 450,660	$ 435,693
Pass-through mortgage securities	71,391	185,809	147,265
Collateralized mortgage obligations	187,414	178,830	154,742
	$ 720,128	$ 815,299	$ 737,700

The following table presents the maturities and weighted average tax equivalent yields of the Bank's investment securities at December 31, 2017.

	Principal Maturing (1)							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held-to-Maturity Securities:								
State and municipals	$ 4,409	4.27 %	$ 2,311	6.33 %	$ 250	6.23 %	$ —	— %
Pass-through mortgage securities	—	—	68	6.39	—	—	243	5.09
Collateralized mortgage obligations	—	—	—	—	—	—	355	7.45
	$ 4,409	4.27 %	$ 2,379	6.33 %	$ 250	6.23 %	$ 598	6.49 %
Available-for-Sale Securities: (2)								
State and municipals	$ 24,444	5.81 %	$ 95,566	4.78 %	$ 172,905	4.15 %	$ 168,408	4.57 %
Pass-through mortgage securities	—	—	—	—	1,376	2.65	70,015	2.34
Collateralized mortgage obligations	—	—	—	—	—	—	187,414	2.35

$ 24,444	5.81 %	$ 95,566	4.78 %	$ 174,281	4.14 %	$ 425,837	3.23 %

(1) Maturities shown are stated maturities, except in the case of municipal securities, which are shown at the earlier of their stated maturity or pre-refunded dates. Securities backed by mortgages, which include the pass-through mortgage securities and collateralized mortgage obligations shown above, are expected to have substantial periodic repayments resulting in weighted average lives considerably shorter than would be surmised from the above table.

(2) Yields on available-for-sale securities have been computed based on amortized cost.

During 2017, the Bank received cash dividends of $1.6 million on its FRB and FHLB stock, representing an average yield of 5.44%.

Loans. The composition of the Bank's loan portfolio is set forth below.

	December 31,				
(in thousands)	2017	2016	2015	2014	2013
Commercial and industrial	$ 109,623	$ 126,038	$ 93,056	$ 77,140	$ 71,818
Commercial mortgages:					
Multifamily	682,593	610,385	572,322	529,093	469,486
Other	414,783	371,142	348,909	222,537	162,874
Owner-occupied	95,631	103,671	115,100	107,345	83,651
Residential mortgages:					
Closed end	1,558,564	1,238,431	1,025,215	779,994	605,343
Revolving home equity	83,625	86,461	87,848	83,109	77,581
Consumer and other	5,533	9,293	5,733	5,601	7,184
	2,950,352	2,545,421	2,248,183	1,804,819	1,477,937
Allowance for loan losses	(33,784)	(30,057)	(27,256)	(23,221)	(20,848)
	$ 2,916,568	$ 2,515,364	$ 2,220,927	$ 1,781,598	$ 1,457,089

Maturity and rate information for commercial and industrial loans outstanding at December 31, 2017 is set forth below.

	Maturity			
(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial and industrial loans:				
Fixed rate	$ 508	$ 25,270	$ 8,734	$ 34,512
Variable rate	37,172	30,974	6,965	75,111
	$ 37,680	$ 56,244	$ 15,699	$ 109,623

Asset Quality. The Corporation has identified certain assets as risk elements. These assets include nonaccrual loans, other real estate owned, loans that are contractually past due 90 days or more as to principal or interest payments and still accruing and troubled debt restructurings. These assets present more than the normal risk that the Corporation will be unable to eventually collect or realize their full carrying value. Information about the Corporation's risk elements is set forth below.

	December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Nonaccrual loans (includes loans held-for-sale):					
Troubled debt restructurings	$ 100	$ 788	$ 900	$ 1,280	$ 2,548
Other	900	1,770	535	424	1,948
Total nonaccrual loans	1,000	2,558	1,435	1,704	4,496
Loans past due 90 days or more and still accruing	—	621	—	—	—
Other real estate owned	5,125	—	—	—	—
Total nonperforming assets	6,125	3,179	1,435	1,704	4,496
Troubled debt restructurings - performing	947	757	3,581	704	541
Total risk elements	$ 7,072	$ 3,936	$ 5,016	$ 2,408	$ 5,037
Nonaccrual loans as a percentage of total loans	.03 %	.10 %	.06 %	.09 %	.30 %
Nonperforming assets as a percentage of total loans and other real estate owned	.21 %	.12 %	.06 %	.09 %	.30 %
Risk elements as a percentage of total loans and other real estate owned	.24 %	.15 %	.22 %	.13 %	.34 %

The following table sets forth the gross interest income that would have been recorded under their original terms on nonaccrual loans and troubled debt restructurings and the actual amounts recorded for the years indicated.

	Year Ended December 31,				
(in thousands)	2017	2016	2015	2014	2013
Gross interest income on nonaccrual loans and troubled debt restructurings:					
Amount that would have been recorded during the year under original terms	$ 101	$ 153	$ 276	$ 127	$ 311
Actual amount recorded during the year	66	82	171	33	60

The past due status of a loan is based on the contractual terms in the loan agreement. Unless a loan is well secured and in the process of collection, the accrual of interest income is discontinued when a loan becomes 90 days past due as to principal or interest payments. The accrual of interest income on a loan is also discontinued when it is determined that the borrower will not be able to make principal and interest payments according to the contractual terms of the current loan agreement. When the accrual of interest income is discontinued on a loan, any accrued but unpaid interest is reversed against current period income.

In addition to the Bank’s past due, nonaccrual and restructured loans, the disclosure of other potential problem loans can be found in “Note C – Loans” to the Corporation’s consolidated financial statements of this Form 10-K.

In 2017, the Bank took a deed-in-lieu of foreclosure for one commercial real estate property. The property is recorded as other real estate owned and has a carrying value of $5.1 million at December 31, 2017, which is net of a valuation allowance of $725,000. The Bank sold the property for its carrying value in the first quarter of 2018.

Loan Risk Ratings. Risk ratings of the Corporation’s commercial and industrial loans and commercial real estate loans are set forth in the tables below. Risk ratings are defined in “Note C – Loans” to the Corporation’s consolidated financial statements of this Form 10-K.

	December 31, 2017	
	Internally Assigned Risk Rating	
	Pass	Special

(in thousands)	1 - 2	3 - 4	5 - 6	Watch	Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 5,633	$ 5,594	$ 97,619	$ 450	$ 279	$ 48	$ —	$ 109,623
Commercial mortgages:								
Multifamily	—	35,429	637,699	2,354	7,111	—	—	682,593
Other	—	20,372	384,007	7,567	2,837	—	—	414,783
Owner-occupied	—	887	92,731	—	1,482	531	—	95,631
	$ 5,633	$ 62,282	$ 1,212,056	$ 10,371	$ 11,709	$ 579	$ —	$ 1,302,630

	December 31, 2016							
Commercial and industrial	$ 1,993	$ 3,733	$ 119,371	$ 810	$ —	$ 131	$ —	$ 126,038
Commercial mortgages:								
Multifamily	—	44,513	558,590	—	7,282	—	—	610,385
Other	—	12,770	356,970	1,402	—	—	—	371,142
Owner-occupied	621	2,408	99,696	389	—	557	—	103,671
	$ 2,614	$ 63,424	$ 1,134,627	$ 2,601	$ 7,282	$ 688	$ —	$ 1,211,236

Risk ratings of the Corporation's residential mortgage loans, home equity lines and other consumer loans are set forth in the tables below. Risk ratings are defined in "Note C – Loans" to the Corporation's consolidated financial statements of this Form 10-K.

	December 31, 2017							
	Internally Assigned Risk Rating							
	Pass				Special			
(in thousands)	1	2	3	Watch	Mention	Substandard	Doubtful	Total
Residential mortgages:								
Closed end	$ 1,512,041	$ 29,270	$ 12,857	$ 2,200	$ 828	$ 1,368	$ —	$ 1,558,564
Revolving home equity	79,084	2,112	1,469	256	704	—	—	83,625
Consumer and other	4,829	299	108	—	—	—	—	5,236
	$ 1,595,954	$ 31,681	$ 14,434	$ 2,456	$ 1,532	$ 1,368	$ —	$ 1,647,425

	December 31, 2016							
Residential mortgages:								
Closed end	$ 1,170,479	$ 50,978	$ 14,695	$ 982	$ 441	$ 856	$ —	$ 1,238,431
Revolving home equity	81,791	1,121	1,277	—	501	1,771	—	86,461
Consumer and other	8,476	47	91	—	—	—	—	8,614
	$ 1,260,746	$ 52,146	$ 16,063	$ 982	$ 942	$ 2,627	$ —	$ 1,333,506

Deposit account overdrafts are not assigned a risk rating and are therefore excluded from consumer loans in the above tables.

Allowance and Provision for Loan Losses. The allowance for loan losses increased by $3.7 million during 2017, amounting to $33.8 million, or 1.15% of total loans, at December 31, 2017, as compared to $30.1 million, or 1.18% of total loans, at December 31, 2016. The decrease of three basis points in the reserve coverage ratio is primarily due to an improvement in the local housing market and in overall economic conditions and a decline in specific reserves.

During 2017, the Bank had loan chargeoffs and recoveries of $1.1 million and $19,000, respectively, and recorded a $4.9 million provision for loan losses. The $4.9 million provision for loan losses for 2017 was primarily attributable to loan growth and net chargeoffs, partially offset by an improvement in the local housing market and in overall economic conditions. The $3.5 million provision for loan losses for 2016 was primarily attributable to loan growth and net chargeoffs, partially offset by a decrease in historical loss rates. Net chargeoffs were driven higher in 2017 by an $820,000 chargeoff recorded on one commercial mortgage when the Bank took a deed-in-lieu of foreclosure. Other real estate owned at year-end 2017 consists solely of the property taken. The Bank sold this property for its carrying value of $5.1 million in the first quarter of 2018.

The allowance for loan losses is an amount that management currently believes will be adequate to absorb probable incurred losses in the Bank's loan portfolio. As more fully discussed in the "Application of Critical Accounting Policies" section of this discussion and analysis of financial condition and results of operations, the process for estimating credit losses and determining the allowance for loan losses as of any balance sheet date is subjective in nature and requires material estimates. Actual results could differ significantly from those estimates. Other detailed information on the Bank's allowance for loan losses, impaired loans and the aging of loans can be found in "Note C – Loans" to the Corporation's consolidated financial statements of this Form 10-K.

The following table sets forth changes in the Bank's allowance for loan losses.

	Year ended December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Balance, beginning of year	$ 30,057	$ 27,256	$ 23,221	$ 20,848	$ 18,624
Loans charged off:					
Commercial and industrial	102	445	166	96	—
Commercial mortgages:					
Multifamily	—	—	91	—	—
Other	—	—	1	37	—
Owner-occupied	820	—	—	400	—
Residential mortgages:					
Closed end	97	259	7	121	914
Revolving home equity	100	—	67	173	—
Consumer and other	27	5	37	7	18
	1,146	709	369	834	932
Recoveries of loans charged off:					
Commercial and industrial	13	4	7	2	19
Commercial mortgages:					
Multifamily	—	—	27	—	—
Other	—	—	39	—	113
Residential mortgages:					
Closed end	3	9	9	3	13
Revolving home equity	—	12	5	4	—
Consumer and other	3	5	—	9	14
	19	30	87	18	159
Net chargeoffs	1,127	679	282	816	773
Provision for loan losses	4,854	3,480	4,317	3,189	2,997
Balance, end of year	$ 33,784	$ 30,057	$ 27,256	$ 23,221	$ 20,848
Ratio of net chargeoffs to average loans outstanding	.04 %	.03 %	.01 %	.05 %	.06 %

The following table sets forth the allocation of the Bank's total allowance for loan losses by loan type.

	December 31,									
	2017		2016		2015		2014		2013	
(dollars in thousands)	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Tot Loans
Commercial and industrial	$ 1,441	3.7 %	$ 1,408	4.9 %	$ 928	4.1 %	$ 838	4.3 %	$ 808	4.9
Commercial mortgages:										
Multifamily	6,423	23.2	6,119	24.0	6,858	25.5	7,207	29.3	7,348	31.8
Other	4,734	14.1	4,296	14.6	3,674	15.5	2,340	12.3	1,501	11.0
Owner-occupied	1,076	3.2	959	4.1	1,047	5.1	1,023	6.0	1,191	5.7
Residential mortgages:										
Closed end	19,347	52.8	15,740	48.6	13,639	45.6	10,599	43.2	8,607	40.9
Revolving home equity	689	2.8	1,401	3.4	1,016	3.9	1,121	4.6	1,240	5.2
Consumer and other	74	.2	134	.4	94	.3	93	.3	153	.5
	$ 33,784	100.0 %	$ 30,057	100.0 %	$ 27,256	100.0 %	$ 23,221	100.0 %	$ 20,848	100.0

The amount of future chargeoffs and provisions for loan losses will be affected by, among other things, economic conditions on Long Island and in New York City. Such conditions could affect the financial strength of the Bank's borrowers and will affect the value of real estate collateral securing the Bank's mortgage loans. Loans secured by real estate represent approximately 96% of the Bank's total loans outstanding at December 31, 2017. Most of these loans were made to borrowers domiciled on Long Island and in the boroughs of New York City. Although economic conditions are showing signs of improvement, they have been sluggish for an extended period of time. These conditions have caused some of the Bank's borrowers to be unable to make the required contractual payments on their loans and could cause the Bank to be unable to realize the full carrying value of such loans through foreclosure or other collection efforts.

Future provisions and chargeoffs could also be affected by environmental impairment of properties securing the Bank's mortgage loans. At the present time, management is not aware of any environmental pollution originating on or near properties securing the Bank's loans that would materially affect the carrying value of such loans.

Deposits and Other Borrowings. Total deposits grew $213.3 million, or 8.2%, to $2.8 billion at December 31, 2017. The increase was attributable to growth in noninterest-bearing checking deposits of $87.8 million, or 10.9%, savings, NOW and money market deposits of $82.7 million, or 5.4% and time deposits of $42.8 million, or 15.2%. The largest segment of the deposit base is savings, NOW and money market deposits, which represent 56.8% of total deposits at December 31, 2017.

The remaining maturities of the Bank's time deposits at December 31, 2017 can be found in "Note E – Deposits" to the Corporation's December 31, 2017 consolidated financial statements.

Borrowings include short-term and long-term FHLB borrowings and borrowings under repurchase agreements. Total borrowings increased $118.7 million during 2017 to $704.9 million at year-end. The increase is comprised of increases in short-term borrowings of $74.1 million and long-term debt of $44.6 million. Short-term borrowings are used to, among other things, offset the seasonal outflow of deposits. The increase in long-term debt includes new fixed rate long-term FHLB borrowings of $71.6 million, partially offset by maturities of $27.0 million.

Deleveraging Transactions. During the first quarter of 2017, the Bank executed a deleveraging transaction. This transaction involved the sale of approximately $40 million of mortgage-backed securities at a gain of $57,000 and use of the resulting proceeds to pay down short-term borrowings. During the second quarter of 2016, the Bank executed a deleveraging transaction. That transaction involved the sale of $40.3 million of mortgage-backed securities at a gain of $1,795,000 and the prepayment of $30 million of long-term debt at a cost of $1,756,000. The Bank completed a similar deleveraging transaction in the second quarter of 2015. The 2015 transaction involved the sale of $61.8 million of mortgage-backed securities at a gain of $995,000 and utilization of the resulting proceeds to prepay $63.5 million of long-term debt at a cost of $1.1 million. These deleveraging transactions were undertaken to eliminate inefficient leverage and accrete Tier 1 leverage capital.

Capital. Stockholders' equity totaled $354.5 million at December 31, 2017, an increase of $48.6 million from $305.8 million at December 31, 2016. The increase was primarily attributable to net income of $35.1 million and the issuance of shares under the Corporation's stock-based compensation and DRIP of $23.6 million, partially offset by cash dividends declared of $14.1.

During 2017, the Corporation's Board of Directors increased the amount of stock that an individual can purchase on a quarterly basis under the stock purchase component of the DRIP from $50,000 to $75,000. This change is providing additional capital that is being used to accommodate balance sheet growth. During 2017, shares issued under the Plan added $22.6 million to capital.

The ratio of average stockholders' equity to average total assets increased to 9.04% for 2017 from 8.73% for 2016. The increase occurred because the growth rate in average stockholders' equity of 14.9% during 2017, primarily due to retained net income and the previously discussed issuance of shares under the DRIP, exceeded the 11.0% growth rate in average assets. The Corporation had returns on average equity of 10.51%, 10.62% and 10.64% and returns on average assets of .95%, .93% and .89%, for the years ended December 31, 2017, 2016 and 2015, respectively. Book value per share increased 11.4% during 2017 to $14.37 at December 31, 2017. Book value per share was $12.90 and $11.85 at December 31, 2016 and 2015, respectively.

The Corporation's capital management policy is designed to build and maintain capital levels that exceed regulatory standards and appropriately provide for growth. The Basel III regulatory capital ratios of the Corporation and the Bank as of December 31, 2017 are set forth in the table below. The Corporation and the Bank exceeded the Basel III minimum capital adequacy requirements, including the capital conservation buffer of 1.25% applicable to the Bank for 2017, and the Bank was well capitalized under the PCA provisions at December 31, 2017.

	Corporation		Bank	
Tier 1 leverage	9.34	%	9.34	%
Common Equity Tier 1 risk-based	15.28	%	15.29	%
Tier 1 risk-based	15.28	%	15.29	%
Total risk-based	16.54	%	16.54	%

The Corporation and the Bank implemented the Basel III regulatory capital standards issued by the Federal Reserve Board and the OCC. Basel III includes guidelines with respect to the calculation of risk weighted assets for both on and off-balance-sheet positions. The Corporation and the Bank made a one-time election upon implementation of Basel III on January 1, 2015 to exclude accumulated other comprehensive income ("AOCI") components from regulatory capital.

Cash Flows and Liquidity

Cash Flows. During 2017, the Corporation’s cash and cash equivalent position increased by $32.7 million, from $36.9 million at December 31, 2016 to $69.7 million at December 31, 2017. The increase occurred primarily because cash provided by the growth in deposits and borrowings, paydowns and sales of securities, paydowns of loans, common stock issued under the DRIP and operations exceeded cash used to originate loans, purchase investment securities and BOLI and pay cash dividends.

Liquidity. The Bank has a board committee approved liquidity policy and liquidity contingency plan, which are intended to ensure that the Bank has sufficient liquidity at all times to meet the ongoing needs of its customers in terms of credit and deposit outflows, take advantage of earnings enhancement opportunities and respond to liquidity stress conditions should they arise.

At December 31, 2017, the Bank had approximately $297 million of unencumbered available-for-sale securities. In addition, based on securities and loan collateral in place at the FRB of New York and FHLB of New York, the Bank had borrowing capacity of approximately $1.3 billion at December 31, 2017.

Off-Balance-Sheet Arrangements and Contractual Obligations

The Corporation’s off-balance-sheet arrangements and contractual obligations at December 31, 2017 are summarized in the table that follows. Since some of the commitments to extend credit and letters of credit are expected to expire without being drawn upon and, with respect to unused home equity, small business credit scored and certain other lines, can be frozen, reduced or terminated by the Bank based on the financial condition of the borrower, the total commitment amounts shown in the table do not necessarily represent future cash requirements. The amounts shown for long-term debt and time deposits are based on the contractual maturities and do not include interest payments. Repurchase agreements can be terminated by the Bank prior to contractual maturity (see “Note F – Borrowed Funds” to the Corporation’s December 31, 2017 consolidated financial statements for more information regarding repurchase agreements). The Corporation believes that its current sources of liquidity are more than sufficient to fulfill the obligations it has at December 31, 2017 pursuant to off-balance-sheet arrangements and contractual obligations.

		Amount of Commitment Expiration Per Period			
(in thousands)	Total	One	Over	Over	Over
	Amounts	Year	One Year	Three Years	Five

	Committed	or Less	Through Three Years	Through Five Years	Years
Commitments to extend credit	$ 318,020	$ 195,901	$ 46,656	$ 10,932	$ 64,531
Standby letters of credit	4,244	3,821	423	—	—
Long-term debt	423,797	101,450	156,250	130,097	36,000
Operating lease obligations	21,120	2,763	5,364	4,947	8,046
Purchase obligations	11,731	2,080	3,580	3,933	2,138
Time deposits	323,408	75,626	110,144	91,049	46,589
	$ 1,102,320	$ 381,641	$ 322,417	$ 240,958	$ 157,304

Commitments to extend credit and letters of credit arise in the normal course of the Bank's business of meeting the financing needs of its customers and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to financial instruments for commitments to extend credit and letters of credit is represented by the contractual notional amount of these instruments. The Bank uses the same credit policies in making commitments to extend credit, and generally uses the same credit policies for letters of credit, as it does for on-balance sheet instruments such as loans.

The purchase obligations shown in the preceding table are pursuant to contracts that the Bank has with providers of data processing services.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with accounting principles generally accepted in the United States, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Corporation is reflected in increased operating costs. Unlike industrial companies, most of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates generally have a more significant effect on the performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Interest rates are highly sensitive to many factors, which are beyond the control of the Corporation, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the Federal Reserve Board, and foreign governments.

Impact of Issued But Not Yet Effective Accounting Standards

For a discussion regarding the impact of issued but not yet effective accounting standards, see Note A to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank invests in interest-earning assets, which are funded by interest-bearing deposits and borrowings, noninterest-bearing deposits and capital. The Bank’s results of operations are subject to risk resulting from interest rate fluctuations generally and having assets and liabilities that have different maturity, repricing, and prepayment/withdrawal characteristics. The Bank defines interest rate risk as the risk that the Bank's net interest income and/or economic value of equity will change when interest rates change. The principal objective of the Bank’s asset liability management activities is to optimize current and future net interest income while at the same time maintain acceptable levels of interest rate and liquidity risk and facilitate the funding needs of the Bank.

The Bank monitors and manages interest rate risk through a variety of techniques including traditional gap analysis and the use of interest rate sensitivity models. Both gap analysis and interest rate sensitivity modeling involve a variety of significant estimates and assumptions and are done at a specific point in time. Changes in the estimates and assumptions made in gap analysis and interest rate sensitivity modeling could have a significant impact on projected results and conclusions. Therefore, these techniques may not accurately reflect the actual impact of changes in the interest rate environment on the Bank’s net interest income or EVE.

Gap Analysis. Traditional gap analysis involves arranging the Bank's interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference, or interest-rate sensitivity gap, between the assets and liabilities which are estimated to reprice during each time period and cumulatively through the end of each time period. Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Among other things, gap analysis does not fully take into account the fact that the repricing of some assets and liabilities is discretionary and subject to competitive and other pressures.

The table that follows summarizes the Corporation's cumulative interest rate sensitivity gap at December 31, 2017, based upon significant estimates and assumptions that the Corporation believes to be reasonable. The table arranges interest-earning assets and interest-bearing liabilities according to the period in which they contractually mature or, if earlier, are estimated to repay or reprice. Repayment and repricing estimates are based on internal data, market data and management's assumptions about factors that are inherently uncertain. These factors include, among others, prepayment speeds, changes in market interest rates and the Bank's response thereto, early withdrawal of deposits and competition. The balances of non-maturity deposit products have been included in categories beyond three months in the table because management believes, based on past experience and its knowledge of current competitive pressures, that the repricing of these products will lag market changes in interest rates to varying degrees.

	Repricing Period						
(in thousands)	Three Months or Less	Over Three Months Through Six Months	Over Six Months Through One Year	Total Within One Year	Over One Year Through Five Years	Over Five Years	Non-Interest-Sensitive
Assets:							
Investment securities	$ 18,235	$ 21,239	$ 34,394	$ 73,868	$ 208,633	$ 441,007	$ 4,256
Loans	211,086	47,077	125,704	383,867	1,152,127	1,413,358	(32,784)
Other assets	37,659	—	59,872	97,531	—	—	152,845
	266,980	68,316	219,970	555,266	1,360,760	1,854,365	124,317
Liabilities & Stockholders' Equity:							
Checking deposits	—	—	—	—	—	—	896,129
Savings, NOW and money market deposits	291,423	94,701	189,399	575,523	845,649	181,288	—
Time deposits, $100,000 and over	17,190	3,488	26,976	47,654	129,915	26,321	—
Time deposits, other	12,487	4,976	10,509	27,972	71,278	20,268	—
Borrowed funds	307,591	22,500	52,500	382,591	286,347	36,000	—
Other liabilities	—	—	—	—	—	—	13,323
Stockholders' equity	—	—	—	—	—	—	354,450
	628,691	125,665	279,384	1,033,740	1,333,189	263,877	1,263,902
Interest-rate sensitivity gap	$ (361,711)	$ (57,349)	$ (59,414)	$ (478,474)	$ 27,571	$ 1,590,488	$ (1,139,585)
Cumulative interest-rate sensitivity gap	$ (361,711)	$ (419,060)	$ (478,474)	$ (478,474)	$ (450,903)	$ 1,139,585	$ —

As shown in the preceding table, the Bank has a larger volume of interest-bearing deposit accounts and borrowings than interest-earning assets that are subject to repricing in a one-year time frame. Net interest income in the near-term could be negatively impacted if the rates paid on the Bank’s deposit accounts and short-term borrowings are increased at the same time and in an amount equal to or greater than the increases in the rates earned on the Bank’s interest-earning assets. Conversely, an increase in short-term interest rates could positively impact the Bank’s net interest income in the near-term if increases in the rates paid on the Bank’s deposit accounts lag and occur in lesser amounts than increases in the rates earned on the Bank’s interest-earning assets.

Interest Rate Sensitivity Modeling. Through use of interest rate sensitivity modeling, the Bank first projects net interest income over a five-year time period assuming a static balance sheet and no changes in interest rates from current levels. Utilization of a static balance sheet ensures that interest rate risk embedded in the Bank’s current balance sheet is not masked by assumed balance sheet growth or contraction. Net interest income is then projected over a five-year time period utilizing: (1) a static balance sheet and various interest rate change scenarios, including both ramped and shock changes and changes in the shape of the yield curve; and (2) a most likely balance sheet growth scenario and these same interest rate change scenarios. The interest rate scenarios modeled are based on, among other things, the shape of the current yield curve and the relative level of rates and management’s expectations as to potential future yield curve shapes and rate levels.

The Bank also uses interest rate sensitivity modeling to calculate EVE in the current rate environment assuming shock increases and decreases in interest rates. EVE is the difference between the present value of expected future cash flows from the Bank’s assets and the present value of the expected future cash flows from the Bank’s liabilities. Present values are determined using discount rates that management believes are reflective of current market conditions. EVE can capture long-term interest rate risk that would not be captured in a five-year projection of net interest income.

In utilizing interest rate sensitivity modeling to project net interest income and calculate EVE, management makes a variety of estimates and assumptions which include, among others, the following: (1) how much and when yields and costs on individual categories of interest-earning assets and interest-bearing liabilities will change in response to projected changes in market interest rates; (2) future cash flows, including prepayments of mortgage assets and calls of municipal securities; (3) cash flow reinvestment assumptions; (4) appropriate discount rates to be applied to loan, deposit and borrowing cash flows; and (5) decay or runoff rates for nonmaturity deposits such as checking, savings, NOW and money market accounts. The repricing of loans and borrowings and the reinvestment of loan and security cash flows are generally assumed to be impacted by the full amount of each assumed rate change, while the repricing of nonmaturity deposits is not. For nonmaturity deposits, management makes estimates of how much and when it will need to change the rates paid on the Bank’s various deposit products in response to changes in general market interest rates. These estimates are based on, among other things, product type, management’s experience with needed deposit rate adjustments in prior interest rate change cycles, the results of a nonmaturity deposit study conducted by an independent consultant and management’s assessment of competitive conditions in its marketplace.

The information provided in the following table is based on a variety of estimates and assumptions that management believes to be reasonable, the more significant of which are set forth hereinafter. The base case information in the table shows (1) a calculation of the Corporation’s EVE at December 31, 2017 arrived at by discounting estimated future cash flows at rates that management believes are reflective of current market conditions and (2) an estimate of net interest income for the year ending December 31, 2018 assuming a static balance sheet, the adjustment of repricing balances to current rate levels, and the reinvestment at current rate levels of cash flows from maturing assets and liabilities in a mix of assets and liabilities that mirrors the Bank’s strategic plan. In addition, in calculating EVE, cash flows for nonmaturity deposits are derived using a base case average life by product as determined by a nonmaturity deposit study and the current mix of deposits.

The rate change information in the table shows estimates of net interest income for the year ending December 31, 2018 and calculations of EVE at December 31, 2017 assuming rate changes of plus 100, 200 and 300 basis points and minus 100 basis points. The rate change scenarios were selected based on, among other things, the relative level of current interest rates and are: (1) assumed to be shock or immediate changes, (2) occur uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities, and (3) impact the repricing and reinvestment of all assets and liabilities, except nonmaturity deposits, by the full amount of the rate change. In projecting future net interest income under the indicated rate change scenarios, activity is simulated by assuming that cash flows from maturing assets and liabilities are reinvested in a mix of assets and liabilities that mirrors the Bank’s strategic plan. The changes in EVE from the base case have not been tax effected.

	Economic Value of Equity at December 31, 2017		Net Interest Income for 2018	
Rate Change Scenario (dollars in thousands)	Amount	Percent Change From Base Case	Amount	Percent Change From Base Case
+ 300 basis point rate shock	$ 311,418	-27.0%	$ 85,729	-15.1%

+ 200 basis point rate shock	386,626	-9.4%	92,120	-8.7%
+ 100 basis point rate shock	412,460	-3.4%	96,761	-4.1%
Base case (no rate change)	426,825	—	100,933	—
- 100 basis point rate shock	407,155	-4.6%	103,398	2.4%

As shown in the preceding table, assuming a static balance sheet, an immediate increase in interest rates of 100, 200 or 300 basis points could negatively impact the Bank’s net interest income for the year ended December 31, 2018 because, among other things, the Bank would need to pay more for overnight borrowings and it is assumed the Bank would need to increase the rates paid on its nonmaturity deposits in order to remain competitive. Conversely, an immediate decrease in interest rates of 100 basis points could positively impact the Bank’s net interest income for the same time period because, among other things, the Bank would immediately pay less for overnight borrowings and be able to reduce deposit rates. Changes in management’s estimates as to the rates that will need to be paid on nonmaturity deposits could have a significant impact on the net interest income amounts shown for each scenario in the table.

Forward-Looking Statements

This report on Form 10-K and the documents incorporated into it by reference contain or may contain various forward-looking statements. These forward-looking statements include statements of goals; intentions and expectations; estimates of risks and of future costs and benefits; assessments of probable loan losses; assessments of market risk; and statements of the ability to achieve financial and other goals. Forward-looking statements are typically identified by words such as “would,” “should,” “could,” “believe,” “expect,” “anticipate,” “intend,” “outlook,” “estim
“forecast,” “project” and other similar words and expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties which may change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Because forward-looking statements are subject to assumptions and uncertainties, actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements and future results could differ materially from historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties: general economic conditions and trends, either nationally or locally; conditions in the securities markets; fluctuations in the trading price of our common stock; changes in interest rates; changes in deposit flows and in the demand for deposit and loan products and other financial services; changes in real estate values; changes in the quality or composition of our loan or investment portfolios; changes in competitive pressures among financial institutions or from non-financial institutions; our ability to retain key members of management; changes in legislation, regulation, and policies; and a variety of other matters which, by their nature, are subject to significant uncertainties. We provide greater detail regarding some of these factors in Item 1A, “Risk Factors” included in this report. Our forward-looking statements may also be subject to other risks and uncertainties, including those that we may discuss elsewhere in other documents we file with the SEC from time to time.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

December 31 (in thousands)	2017	2016
Assets:		
Cash and cash equivalents	$ 69,672	$ 36,929
Investment securities:		
Held-to-maturity, at amortized cost (fair value of $7,749 and $11,637)	7,636	11,387
Available-for-sale, at fair value	720,128	815,299
	727,764	826,686
Loans:		
Commercial and industrial	109,623	126,038
Secured by real estate:		
Commercial mortgages	1,193,007	1,085,198
Residential mortgages	1,558,564	1,238,431
Home equity lines	83,625	86,461
Consumer and other	5,533	9,293
	2,950,352	2,545,421
Allowance for loan losses	(33,784)	(30,057)
	2,916,568	2,515,364
Restricted stock, at cost	37,314	31,763
Bank premises and equipment, net	39,648	34,361
Bank-owned life insurance	59,665	33,097
Pension plan assets, net	19,152	17,316
Other assets	24,925	14,804
	$ 3,894,708	$ 3,510,320
Liabilities:		
Deposits:		
Checking	$ 896,129	$ 808,311
Savings, NOW and money market	1,602,460	1,519,749
Time, $100,000 and over	203,890	178,918
Time, other	119,518	101,739
	2,821,997	2,608,717
Short-term borrowings	281,141	207,012
Long-term debt	423,797	379,212
Accrued expenses and other liabilities	10,942	9,481
Deferred income taxes payable	2,381	68

	3,540,258	3,204,490
Commitments and Contingent Liabilities (Note L)		
Stockholders' Equity:		
Common stock, par value $.10 per share:		
Authorized, 40,000,000 shares;		
Issued and outstanding, 24,668,390 and 23,699,107 shares	2,467	2,370
Surplus	127,122	101,738
Retained earnings	224,315	203,326
	353,904	307,434
Accumulated other comprehensive income (loss), net of tax	546	(1,604)
	354,450	305,830
	$ 3,894,708	$ 3,510,320

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31 (dollars in thousands, except per share data)	2017	2016	2015
Interest and dividend income:			
Loans	$ 97,027	$ 82,456	$ 70,558
Investment securities:			
Taxable	7,754	7,981	7,991
Nontaxable	13,484	13,686	13,586
	118,265	104,123	92,135
Interest expense:			
Savings, NOW and money market deposits	7,113	5,344	2,564
Time deposits	5,479	5,107	5,987
Short-term borrowings	1,345	296	183
Long-term debt	7,772	7,255	7,795
	21,709	18,002	16,529
Net interest income	96,556	86,121	75,606
Provision for loan losses	4,854	3,480	4,317
Net interest income after provision for loan losses	91,702	82,641	71,289
Noninterest income:			
Investment Management Division income	2,090	2,000	2,044
Service charges on deposit accounts	2,792	2,666	2,577
Net gains (losses) on sales of securities	(1,866)	1,868	1,324
Other	3,813	2,845	2,813
	6,829	9,379	8,758
Noninterest expense:			
Salaries	24,159	22,116	20,680
Employee benefits	7,150	6,889	6,021
Occupancy and equipment	10,245	9,264	8,798
Debt extinguishment	—	1,756	1,084
Other	11,966	12,066	10,108
	53,520	52,091	46,691
Income before income taxes	45,011	39,929	33,356
Income tax expense	9,889	9,049	7,466
Net income	$ 35,122	$ 30,880	$ 25,890
Earnings per share:			
Basic	$1.44	$1.35	$1.23
Diluted	$1.43	$1.34	$1.22
Cash dividends declared per share	$.58	$.55	$.52

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (in thousands)	2017	2016	2015
Net income	$ 35,122	$ 30,880	$ 25,890
Other comprehensive income (loss):			
Change in net unrealized holding gains on available-for-sale securities	1,631	(17,004)	(3,034)
Change in funded status of pension plan	1,718	1,443	(2,573)
Other comprehensive income (loss) before income taxes	3,349	(15,561)	(5,607)
Income tax expense (benefit)	1,199	(6,433)	(2,346)
Other comprehensive income (loss)	2,150	(9,128)	(3,261)
Comprehensive income	$ 37,272	$ 21,752	$ 22,629

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)	Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	13,887,134	$ 1,389	$ 51,009	$ 170,120	$ 10,785	$ 233,303
Net income				25,890		25,890
Other comprehensive loss					(3,261)	(3,261)
Shares withheld upon the vesting and conversion of RSUs	(12,227)	(1)	(286)			(287)
Common stock issued under stock compensation plans, including tax benefit	88,981	9	1,034			1,043
Common stock issued under dividend reinvestment and stock purchase plan	152,789	15	3,855			3,870
Stock-based compensation			1,319			1,319
Cash dividends declared				(10,941)		(10,941)
Balance, December 31, 2015	14,116,677	1,412	56,931	185,069	7,524	250,936
Net income				30,880		30,880
Other comprehensive loss					(9,128)	(9,128)
Common stock issued in public offering, net of issuance costs	1,300,000	130	35,140			35,270
Shares withheld upon the vesting and conversion of RSUs	(13,393)	(1)	(369)			(370)
Common stock issued under stock compensation plans	109,409	11	895			906
Common stock issued under dividend reinvestment and stock purchase plan	287,498	28	8,414			8,442
3-for-2 stock split	7,898,916	790	(790)			—
Stock-based compensation			1,517			1,517
Cash dividends declared				(12,623)		(12,623)
Balance, December 31, 2016	23,699,107	2,370	101,738	203,326	(1,604)	305,830
Net income				35,122		35,122
Other comprehensive income					2,150	2,150
Shares withheld upon the vesting and conversion of RSUs	(19,339)	(2)	(525)			(527)
Common stock issued under stock compensation plans	164,720	17	959			976
Common stock issued under dividend reinvestment and stock purchase plan	823,902	82	22,516			22,598
Stock-based compensation			2,434			2,434
Cash dividends declared				(14,133)		(14,133)

Balance, December 31, 2017	24,668,390	$ 2,467	$ 127,122	$ 224,315	$ 546	$ 354,450

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2017	2016	2015
Cash Flows From Operating Activities:			
Net income	$ 35,122	$ 30,880	$ 25,890
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	4,854	3,480	4,317
Provision (credit) for deferred income taxes	1,114	1,233	(881)
Provision for losses on other real estate owned	725	—	—
Depreciation and amortization	3,604	3,219	3,013
Premium amortization on investment securities, net	3,045	4,002	4,632
Net losses (gains) on sales of securities	1,866	(1,868)	(1,324)
Loss on debt extinguishment	—	1,756	1,084
Stock-based compensation expense	2,434	1,517	1,319
Common stock issued in lieu of cash for director fees	59	—	—
Accretion of cash surrender value on bank-owned life insurance	(1,568)	(932)	(879)
Pension expense (credit) less contribution	(118)	(1,536)	(489)
(Increase) decrease in other assets and other	(4,996)	(2,849)	107
Increase (decrease) in accrued expenses and other liabilities	1,031	(3,313)	(1,117)
Net cash provided by operating activities	47,172	35,589	35,672
Cash Flows From Investing Activities:			
Proceeds from sales of investment securities:			
Held-to-maturity	355	123	4,203
Available-for-sale	135,695	62,047	69,649
Proceeds from maturities and redemptions of investment securities:			
Held-to-maturity	6,089	4,322	5,479
Available-for-sale	100,994	108,486	106,900
Purchases of investment securities:			
Held-to-maturity	(2,606)	(1,403)	(2,005)
Available-for-sale	(144,885)	(267,329)	(146,661)
Proceeds from sales of loans and loans held-for-sale	—	544	1,176
Net increase in loans	(411,908)	(298,361)	(444,927)
Net increase in restricted stock	(5,551)	(3,328)	(5,131)
(Purchases of) proceeds from bank-owned life insurance	(25,000)	388	—
Purchases of premises and equipment, net	(8,891)	(7,250)	(5,489)
Net cash used in investing activities	(355,708)	(401,761)	(416,806)
Cash Flows From Financing Activities:			
Net increase in deposits	213,280	324,042	299,650
Net increase (decrease) in short-term borrowings	74,129	(4,490)	75,016
Proceeds from long-term debt	71,635	43,500	94,212
Repayment of long-term debt	(27,050)	(31,756)	(74,584)
Proceeds from issuance of common stock, net	22,598	43,712	3,870

Proceeds from exercise of stock options	917	906	707
Shares withheld upon the vesting and conversion of RSUs	(527)	(370)	(287)
Cash dividends paid	(13,703)	(12,078)	(10,759)
Net cash provided by financing activities	341,279	363,466	387,825
Net increase (decrease) in cash and cash equivalents	32,743	(2,706)	6,691
Cash and cash equivalents, beginning of year	36,929	39,635	32,944
Cash and cash equivalents, end of period	$ 69,672	$ 36,929	$ 39,635
Supplemental Cash Flow Disclosures:			
Cash paid for interest	$ 21,545	$ 21,158	$ 18,361
Cash paid for income taxes	12,838	9,006	8,065
Noncash investing and financing activities:			
Cash dividends payable	3,798	3,368	2,823
Additions to other real estate owned	5,850	—	—
Loans transferred from portfolio to held-for-sale	—	—	105

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of The First of Long Island Corporation and its wholly-owned subsidiary, The First National Bank of Long Island, and subsidiaries wholly-owned by the Bank, either directly or indirectly: The First of Long Island Agency, Inc.; FNY Service Corp. ("FNY"); and The First of Long Island REIT, Inc. ("REIT"). The Corporation's financial condition and operating results principally reflect those of the Bank and its subsidiaries. The consolidated entity is referred to as the "Corporation," and the Bank and its subsidiaries are collectively referred to as the "Bank." All intercompany balances and amounts have been eliminated. In preparing the consolidated financial statements, management is required to make estimates, such as the allowance for loan losses, and assumptions that affect the reported asset and liability balances, revenue and expense amounts and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates.

The accounting and reporting policies of the Corporation reflect banking industry practice and conform to generally accepted accounting principles in the United States. The following is a summary of the Corporation's significant accounting policies.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits with other financial institutions that generally mature within 90 days.

Investment Securities

Current accounting standards require that investment securities be classified as held-to-maturity, available-for-sale or trading. The trading category is not applicable to any securities in the Bank's portfolio because the Bank does not buy or hold debt or equity securities principally for the purpose of selling in the near term. Held-to-maturity securities, or debt securities which the Bank has the intent and ability to hold to maturity, are reported at amortized cost. Available-for-sale securities, or debt and equity securities which are neither held-to-maturity securities nor trading securities, are reported at fair value, with unrealized gains and losses, net of the related income tax effect, included in other comprehensive income.

Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method. Prepayments are anticipated for mortgage-backed securities. Premiums on municipal securities are amortized to the earlier of the stated maturity date or the first call date, while discounts on municipal securities are accreted to the stated maturity date. Realized gains and losses on the sale of securities are determined using the specific identification method.

Investment securities are evaluated for other-than-temporary impairment ("OTTI") no less often than quarterly. In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions; and (4) whether management has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, management considers whether it intends to sell, or, more likely than not, will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or fair value. Any subsequent declines in fair value below the initial carrying value are recorded as a valuation allowance established through a charge to noninterest income.

Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance less any chargeoffs and the allowance for loan losses and plus or minus net deferred loan costs and fees, respectively. Interest on loans is credited to income based on the principal amount outstanding. Direct loan origination costs, net of loan origination fees, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The past due status of a loan is based on the contractual terms in the loan agreement. Unless a loan is well secured and in the process of collection, the accrual of interest income is discontinued when a loan becomes 90 days past due as to principal or interest payments. The accrual of interest income on a loan is also discontinued when it is determined that the borrower will not be able to make principal and interest payments according to the contractual terms of the current loan agreement. When the accrual of interest income is discontinued on a loan, any accrued but unpaid interest is reversed against current period income. Interest received on nonaccrual loans is applied against the outstanding principal balance until the loans qualify for return to an accrual status, if ever. Return to an accrual status occurs when all the principal and interest amounts contractually past due are brought current and all future payments are reasonably assured.

The allowance for loan losses is established through provisions for loan losses charged against income. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is an amount that management currently believes will be adequate to absorb probable incurred losses in the Bank’s loan portfolio. The process for estimating credit losses and determining the allowance for loan losses as of any balance sheet date is subjective in nature and requires material estimates. Actual results could differ significantly from those estimates.

The allowance for loan losses is comprised of specific reserves allocated to individually impaired loans plus estimated losses on pools of loans that are collectively reviewed. Although the allowance for loan losses has two separate components, one for impairment losses on individual loans and one for collective impairment losses on pools of loans, the entire allowance for loan losses is available to absorb realized losses as they occur whether they relate to individual loans or pools of loans.

Estimated losses for loans individually deemed to be impaired are based on either the fair value of collateral or the discounted value of expected future cash flows. For all collateral dependent impaired loans, impairment losses are measured based on the fair value of the collateral. A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled principal and interest when due according to the contractual terms of the current loan agreement. Loans that experience insignificant payment delays and payment shortfalls are not automatically considered to be impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and financial condition and the amount of the shortfall in relation to the principal and interest owed. In estimating the fair value of real estate collateral, management utilizes appraisals or evaluations adjusted for costs to dispose and a distressed sale adjustment, if needed.

In addition to estimating losses for loans individually deemed to be impaired, management also estimates collective impairment losses for pools of loans that are not specifically reviewed. Loan pools include: commercial and industrial loans; small business credit scored loans; owner-occupied commercial mortgages; multifamily commercial mortgages; other commercial mortgages; construction and land development loans; first-lien residential mortgages; junior-lien residential mortgages; first-lien home equity lines; junior-lien home equity lines; and consumer loans. The Bank's highest average annualized loss experience over periods of 24, 36, 48 or 60 months is generally the starting point in determining its allowance for loan losses for each pool of loans. Management believes that this approach appropriately reflects losses from the current economic cycle and those incurred losses in the Bank's loan portfolio. However, since future losses could vary significantly from those experienced in the past, on a quarterly basis management adjusts its historical loss experience to reflect current conditions. In doing so, management considers a variety of general qualitative factors and then subjectively determines the weight to assign to each in estimating losses. The factors include, among others: (1) delinquencies, (2) economic conditions as judged by things such as national and local unemployment levels, (3) changes in value of underlying collateral as judged by things such as median home prices, commercial vacancy rates and forecasted vacancy and rental rates in the Bank's service area, (4) trends in the nature and volume of loans, (5) concentrations of credit, (6) changes in lending policies and procedures, (7) experience, ability and depth of lending staff, (8) changes in the quality of the loan review function, (9) environmental risks, and (10) loan risk ratings. Substantially all of the Bank's allowance for loan losses allocable to pools of loans that are collectively evaluated for impairment results from these qualitative adjustments to historical loss experience. Because of the nature of the qualitative factors and the difficulty in assessing their impact, management's resulting estimate of losses may not accurately reflect actual losses in the portfolio.

Troubled debt restructurings are by definition impaired loans and are generally reported at the present value of estimated future cash flows using the loan's effective rate at inception. However, if a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises and Equipment

Land is carried at cost. Other bank premises and equipment are carried at cost less accumulated depreciation and amortization. Buildings are depreciated using the straight-line method over their estimated useful lives, which range from thirty-one to forty years. Building and leasehold improvements are depreciated using the straight-line method over the remaining lives of the buildings or leases, as applicable, or their estimated useful lives, whichever is shorter. The lives of the respective leases range from five to twenty years. Furniture, fixtures and equipment are depreciated using the straight-line method over their estimated useful lives, which range from three to ten years. Land and building held-for-sale is included in Other Assets on the Corporation's consolidated balance sheet and carried at the lower of cost or fair value.

Bank-owned Life Insurance

The Bank is the owner and beneficiary of insurance policies on the lives of certain officers. Bank-owned life insurance ("BOLI") is recorded at the amount that can be realized under the contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement, if any.

Restricted Stock

The Bank is a member of and is required to own stock in the Federal Home Loan Bank of New York ("FHLB") and the Federal Reserve Bank of New York ("FRB"). The amount of FHLB stock held is based on membership and the level of FHLB advances. The amount of FRB stock held is based on the Bank's capital and surplus balances. These stocks do not have a readily determinable fair value, are carried at cost, classified as restricted stock and periodically evaluated for impairment based on the prospects for the ultimate recovery of cost. Cash dividends, if any, are reported as interest income on taxable investment securities.

Other Real Estate Owned

Real estate acquired through foreclosure or by deed-in-lieu of foreclosure is initially recorded at the lower of cost or fair value, less estimated selling costs and is included in other assets on the consolidated balance sheet. Chargeoffs recorded at the time of acquisition are charged to the allowance for loan losses. Thereafter, the Bank maintains a valuation allowance, representing decreases in the property's estimated fair value, through charges to earnings. Such charges are included in other noninterest expense along with any additional property maintenance costs incurred in owning the property. Rental income received from tenants of other real estate owned is included in other noninterest income.

Long-term Assets

Premises and equipment, intangible assets, BOLI and other long-term assets, if any, are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans, commercial letters of credit and standby letters of credit. The face amount of these items represents the exposure to loss, before considering collateral held or ability to repay. The Bank maintains a reserve for losses on off-balance-sheet credit exposures which is included in accrued expenses and other liabilities on the consolidated balance sheet. Off-balance-sheet credit instruments are recorded on the balance sheet when they are funded or drawn down.

Checking Deposits

The Bank's commercial checking accounts generally have a related noninterest-bearing sweep account. The sole purpose of the sweep accounts is to reduce the reserve balances that the Bank is required to maintain with the FRB, and thereby increase funds available for investment. Although the sweep accounts are classified as savings accounts for regulatory purposes, they are included in checking deposits in the accompanying consolidated balance sheets.

Income Taxes

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not considered. The Corporation recognizes interest and/or penalties related to income tax matters in noninterest income or noninterest expense as appropriate.

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Retirement Plans

Pension expense is the sum of service cost, interest cost, amortization of actuarial gains and losses and plan expenses, net of the expected return on plan assets and participant contributions. Employee 401(k) plan expense is equal to the amount of matching contributions.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Stockholders' Equity

Earnings Per Share. The Corporation calculates basic and diluted earnings per share ("EPS") using the two-class method. Under the two-class method, net income for the period is allocated between common stockholders and participating securities according to dividends declared and participation rights in undistributed earnings. Basic EPS excludes the dilutive effect of outstanding stock options and restricted stock units ("RSUs") and is computed by dividing net income allocated to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if outstanding stock options and RSUs were converted into shares of common stock that then shared in the earnings of the Corporation. Diluted EPS is computed by dividing net income allocated to common stockholders by the weighted average number of common shares and dilutive stock options and RSUs. There were no anti-dilutive stock options or RSUs at December 31, 2017 or 2016. Anti-dilutive stock options and RSUs at December 31, 2015 were de minimis. Other than the stock options and RSUs described in "Note I – Stock-Based Compensation", the Corporation has no securities that could be converted into common stock nor does the Corporation have any contracts that could result in the issuance of common stock.

The following table is a calculation of basic and diluted EPS for the periods indicated.

(dollars in thousands, except per share data)	2017	2016	2015
Net income	$ 35,122	$ 30,880	$ 25,890
Income allocated to participating securities (1)	128	127	—

Income allocated to common stockholders	$ 34,994	$ 30,753	$ 25,890
Weighted average:			
Common shares	24,219,813	22,745,967	21,017,808
Dilutive stock options and restricted stock units (1)	255,333	271,929	244,452
	24,475,146	23,017,896	21,262,260
Earnings per share:			
Basic	$1.44	$1.35	$1.23
Diluted	$1.43	$1.34	$1.22

(1) RSUs awarded in 2016 accrue dividends at the same rate as the dividends declared by the Board of Directors on the Corporation's common stock. For purposes of computing EPS, these RSUs are considered to participate with common stock in the earnings of the Corporation and, therefore, the Corporation calculates basic and diluted EPS using the two-class method. Under the two-class method, net income for the period is allocated between common stockholders and participating securities according to dividends declared and participation rights in undistributed earnings. See "Note I – Stock-Based Compensation" for additional details on the RSUs awarded in 2016.

Stock Split. On October 27, 2016, the Corporation declared a 3-for-2 stock split. The stock split was effected through a 50% stock dividend. Additional shares issued as a result of the stock split were distributed on November 28, 2016 to stockholders of record on November 10, 2016, and are shown for 2016 on the line captioned "3-for-2 stock split" in the Consolidated Statement of Changes in Stockholders' Equity. Share and per share amounts included in the consolidated financial statements and notes thereto have been adjusted as appropriate to reflect the effect of the split.

Public Offering of Common Stock. In May 2016, the Corporation sold 1,300,000 shares of common stock (1,950,000 shares post-split) in an underwritten public offering at a price of $29.00 per share ($19.33 post-split). The net proceeds of the offering, after the underwriting discount and offering expenses paid by the Corporation, were $35,270,000.

Stock-based Compensation

The Corporation's stock-based compensation plans are described in "Note I – Stock-Based Compensation". Compensation cost is determined for stock options and RSUs issued to employees and non-employee directors based on the grant date fair value of the award.

Compensation expense for performance-based RSUs is recognized over a three-year performance period, which is usually the vesting period, and adjusted at the end of the performance period to reflect the actual number of shares of the Corporation's common stock into which the RSUs will be converted. Compensation expense for service-based RSUs is recognized over the applicable service period, which is usually the vesting period. Compensation expense for stock options is recognized ratably over the five-year vesting period or the period from the grant date to the participant's eligible retirement date, whichever is shorter. The Corporation accounts for forfeitures as they occur.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Other comprehensive income for the Corporation consists of net unrealized holding gains or losses on available-for-sale securities and changes in the funded status of the Bank's defined benefit pension plan, both net of related income taxes. Accumulated other comprehensive income (loss) is recognized as a separate component of stockholders' equity.

The components of other comprehensive income (loss) and the related tax effects are as follows:

(in thousands)	2017	2016	2015
Change in net unrealized holding gains on available-for-sale securities:			
Change arising during the period	$ (236)	$ (15,153)	$ (1,851)
Reclassification adjustment for losses (gains) included in net income (1)	1,867	(1,851)	(1,183)
Change in net unrealized holding gains on available-for-sale securities	1,631	(17,004)	(3,034)
Tax effect	685	(6,983)	(1,249)
	946	(10,021)	(1,785)
Change in funded status of pension plan:			
Unrecognized net gain (loss) arising during the period	1,700	1,199	(2,573)
Amortization of net actuarial loss included in pension expense (2)	18	244	—
	1,718	1,443	(2,573)
Tax effect	514	550	(1,097)
	1,204	893	(1,476)
Other comprehensive income (loss)	$ 2,150	$ (9,128)	$ (3,261)

(1) Reclassification adjustment represents net realized gains and losses arising from the sale of available-for-sale securities. These net realized gains and losses are included in the consolidated statements of income in the line item, “Net gains (losses) on sales of securities.” See “Note B – Investment Securities” for the income tax expense (benefit) related to these net realized gains and losses.

(2) Represents the amortization into expense of net actuarial loss relating to the Corporation’s defined benefit pension plan. This item is included in net periodic pension cost (see “Note J – Retirement Plans”) and in the consolidated statements of income in the line item, “Employee benefits.” The income tax expense relating to this cost is included in the consolidated statements of income in the line item, “Income tax expense.”

The following sets forth the components of accumulated other comprehensive income (loss), net of tax:

(in thousands)	Balance 12/31/16	Current Period Change	Balance 12/31/17
Unrealized holding gains on available-for-sale securities	$ 1,654	$ 946	$ 2,600
Unrealized actuarial losses on pension plan	(3,258)	1,204	(2,054)
Total accumulated other comprehensive income (loss), net of tax	$ (1,604)	$ 2,150	$ 546

Operating Segments

While senior management monitors the revenue streams of the Bank’s various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, all of the financial operations of the Bank are aggregated in one reportable operating segment.

Investment Management Division

Assets held in a fiduciary capacity are not assets of the Corporation and, accordingly, are not included in the accompanying consolidated financial statements. The Investment Management Division records fees on the accrual basis.

Reclassifications

When appropriate, items in the prior year financial statements are reclassified to conform to the current period presentation.

Adoption of New Accounting Standards

There were no accounting standards adopted during 2017.

Impact of Issued But Not Yet Effective Accounting Standards

The pronouncements discussed in this section are not intended to be an all-inclusive list, but rather only those pronouncements that could potentially have an impact on the Corporation's financial position, results of operations or disclosures.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers." The amendments in ASU 2014-09 provide a comprehensive framework for addressing revenue recognition issues that can be applied to all contracts with customers. While the guidance in ASU 2014-09 supersedes most existing industry-specific revenue recognition accounting guidance, much of a bank's revenue comes from financial instruments such as debt securities and loans that are scoped-out of the guidance. The amendments in ASU 2014-09 also include improved disclosures to enable users of financial statements to better understand the nature, amount, timing and uncertainty of revenue that is recognized. For public entities such as the Corporation, ASU 2014-09, as amended, is effective for interim and annual reporting periods beginning after December 15, 2017. Implementation of ASU 2014-09 on January 1, 2018 will result in enhancements to certain revenue recognition disclosures, but the amendments in the ASU did not have a material impact on the Corporation's financial position or results of operations. Management used the modified retrospective transition method to implement the standard and has updated its internal control procedures to address the new requirements.

In January 2016, the FASB issued ASU 2016-01 “Financial Instruments – Overall.” The amendments in ASU 2016-01 are intended to improve the recognition, measurement, presentation and disclosure of financial assets and liabilities to provide users of financial statements with information that is more useful for decision-making purposes. Among other changes, ASU 2016-01 requires equity securities to be measured at fair value with changes in fair value recognized through net income, but allows equity securities that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments simplify the impairment assessment of such equity securities and require enhanced disclosure about these investments. ASU 2016-01 also requires the use of an exit price when measuring the fair value of financial instruments and separate presentation of financial assets and liabilities by measurement category and type of instrument on the balance sheet or in the notes. The ASU eliminates certain disclosures relating to the methods and assumptions used to estimate fair value. For public entities such as the Corporation, the amendments in ASU 2016-01 are effective for interim and annual reporting periods beginning after December 15, 2017. Implementation of ASU 2016-01 on January 1, 2018 did not have a material impact on the Corporation’s financial position or results of operations, but will result in certain modifications to fair value disclosures.

In February 2016, the FASB issued ASU 2016-02 “Leases.” ASU 2016-02 affects any entity that enters into a lease and is intended to increase the transparency and comparability of financial statements among organizations. The ASU requires, among other changes, a lessee to recognize on its balance sheet a lease asset and a lease liability for those leases previously classified as operating leases. The lease asset would represent the right to use the underlying asset for the lease term and the lease liability would represent the discounted value of the required lease payments to the lessor. The ASU would also require entities to disclose key information about leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. Upon implementation of the ASU, the Corporation’s assets and liabilities will increase due to the recognition of a lease asset and a lease obligation. Management has allocated staffing resources to implement the ASU and is developing an implementation plan including, among other things, engaging a third party software provider and evaluating the impact that other aspects of ASU 2016-02 will have on the Corporation’s financial position, results of operations and disclosures.

In June 2016, the FASB issued ASU 2016-13 “Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 affects entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, and other financial assets. The ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected by recording an allowance for credit losses. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. Management has established an internal committee to manage the implementation of the ASU. The committee is led by the Bank’s Chief Accounting Officer and includes the Chief Financial Officer and Chief Risk Officer. A broader advisory group has been established to assist in implementing the ASU and includes representatives of the Bank’s loan operations, credit administration, lending, investments and technology functions. The committee has selected and engaged a third-party software provider, and is currently accumulating historical data needed to implement the ASU. In addition, the committee continues to analyze the provisions of the ASU to understand the impact that it will have on the Corporation's financial position, results of operations and disclosures.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 affects all entities that are required to present a statement of cash flows under Accounting Standards Codification ("ASC") Topic 230, Statement of Cash Flows, and other ASC Topics, addressing eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Implementation of ASU 2016-15 on January 1, 2018 did not have a material impact on the Corporation's financial position, results of operations or disclosures.

In March 2017, the FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans or other types of benefits accounted for under ASC Topic 715. The ASU requires, among other things, that an employer disaggregate the service cost component from other components of net benefit cost and provides explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement. ASU 2017-07 is effective for interim and annual reporting periods beginning after December 15, 2017. Implementation of ASU 2017-07 on January 1, 2018 results in reclassifications between certain income statement categories, but the amendments in the ASU did not have a material impact on the Corporation's financial position, results of operations or disclosures.

In February 2018, the FASB issued ASU 2018-02 "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 affects any entity that has items of other comprehensive income for which the related tax effects are presented in other comprehensive income. The ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act which was signed into law on December 22, 2017. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. Management plans to implement the ASU in the first quarter of 2018 with no impact on the Corporation's financial position or results of operations.

NOTE B – INVESTMENT SECURITIES

The following tables set forth the amortized cost and estimated fair values of the Bank's investment securities at December 31, 2017 and 2016.

(in thousands)	2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:				
State and municipals	$ 6,970	$ 78	$ —	$ 7,048
Pass-through mortgage securities	311	21	—	332
Collateralized mortgage obligations	355	14	—	369
	$ 7,636	$ 113	$ —	$ 7,749
Available-for-Sale Securities:				
State and municipals	$ 453,158	$ 10,051	$ (1,886)	$ 461,323
Pass-through mortgage securities	72,539	84	(1,232)	71,391
Collateralized mortgage obligations	190,175	15	(2,776)	187,414
	$ 715,872	$ 10,150	$ (5,894)	$ 720,128

	2016			
Held-to-Maturity Securities:				
State and municipals	$ 10,419	$ 177	$ —	$ 10,596
Pass-through mortgage securities	361	33	—	394
Collateralized mortgage obligations	607	40	—	647
	$ 11,387	$ 250	$ —	$ 11,637
Available-for-Sale Securities:				
State and municipals	$ 444,154	$ 10,137	$ (3,631)	$ 450,660
Pass-through mortgage securities	188,527	156	(2,874)	185,809
Collateralized mortgage obligations	179,993	862	(2,025)	178,830
	$ 812,674	$ 11,155	$ (8,530)	$ 815,299

At December 31, 2017 and 2016, investment securities with a carrying value of $423,360,000 and $415,419,000, respectively, were pledged as collateral to secure public deposits and borrowed funds.

There were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity at December 31, 2017 and 2016.

Securities With Unrealized Losses. The following tables set forth securities with unrealized losses at December 31, 2017 and 2016 presented by length of time the securities had been in a continuous unrealized loss position.

	2017					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipals	$ 54,732	$ (574)	$ 28,723	$ (1,312)	$ 83,455	$ (1,886)
Pass-through mortgage securities	10,172	(81)	52,652	(1,151)	62,824	(1,232)
Collateralized mortgage obligations	130,267	(1,230)	54,751	(1,546)	185,018	(2,776)
Total temporarily impaired	$ 195,171	$ (1,885)	$ 136,126	$ (4,009)	$ 331,297	$ (5,894)

	2016					
State and municipals	$ 117,181	$ (3,631)	$ —	$ —	$ 117,181	$ (3,631)
Pass-through mortgage securities	175,000	(2,874)	—	—	175,000	(2,874)
Collateralized mortgage obligations	125,424	(1,820)	7,737	(205)	133,161	(2,025)
Total temporarily impaired	$ 417,605	$ (8,325)	$ 7,737	$ (205)	$ 425,342	$ (8,530)

Because the unrealized losses reflected in the preceding tables are deemed by management to be attributable to changes in interest rates and not credit losses, and because management does not have the intent to sell these securities and it is not more likely than not that it will be required to sell these securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2017.

Sales of Available-for-Sale Securities. Sales of available-for-sale securities were as follows:

(in thousands)	2017	2016	2015
Proceeds	$ 135,695	$ 62,047	$ 69,649
Gains	$ 382	$ 1,869	$ 1,560
Losses	(2,249)	(18)	(377)
Net gain (loss)	$ (1,867)	$ 1,851	$ 1,183

The income tax expense (benefit) related to these net realized gains (losses) was ($782,000), $772,000 and $487,000 in 2017, 2016 and 2015, respectively, and is included in the consolidated statements of income in the line item, "Income tax expense."

Sales of Held-to-Maturity Securities. During 2017, the Bank sold one municipal security that was classified as held-to-maturity. The sale was in response to a significant deterioration in the creditworthiness of the issuer. The security sold had a carrying value of $354,000 at the time of sale and the Bank realized a gain upon sale of $1,000.

During 2016, the Bank sold one mortgage-backed security that was classified as held-to-maturity. The sale occurred after the Bank collected 85% or more of the principal amount outstanding at acquisition. The security sold had a carrying value of $106,000 at the time of sale and the Bank realized a gain upon sale of $17,000.

During 2015, the Bank sold municipal securities that were classified as held-to-maturity securities. These sales were in response to a significant deterioration in the creditworthiness of the issuers. The securities sold had a carrying value of $4,062,000 at the time of sale and the Bank realized a gain upon sale of $141,000.

Maturities. The following table sets forth by maturity the amortized cost and fair value of the Bank's state and municipal securities at December 31, 2017 based on the earlier of their stated maturity or, if applicable, their pre-refunded date. The remaining securities in the Bank's investment securities portfolio are mortgage-backed securities, consisting of pass-through mortgage securities and collateralized mortgage obligations. Although these securities are expected to have substantial periodic repayments they are reflected in the table below in aggregate amounts.

(in thousands)	Amortized Cost	Fair Value
Held-to-Maturity Securities:		
Within one year	$ 4,409	$ 4,425
After 1 through 5 years	2,311	2,373
After 5 through 10 years	250	250
After 10 years	—	—
Mortgage-backed securities	666	701
	$ 7,636	$ 7,749
Available-for-Sale Securities:		
Within one year	$ 24,160	$ 24,444
After 1 through 5 years	93,467	95,566
After 5 through 10 years	169,372	172,905
After 10 years	166,159	168,408
Mortgage-backed securities	262,714	258,805
	$ 715,872	$ 720,128

NOTE C – LOANS

The following tables set forth by class of loans as of December 31, 2017 and 2016 the amount of loans individually and collectively evaluated for impairment and the portion of the allowance for loan losses allocable to such loans.

	December 31, 2017					
	Loans			Allowance for Loan Losses		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance

Commercial and industrial	$ 48	$ 109,575	$ 109,623	$ —	$ 1,441	$ 1,441
Commercial mortgages:						
Multifamily	—	682,593	682,593	—	6,423	6,423
Other	—	414,783	414,783	—	4,734	4,734
Owner-occupied	531	95,100	95,631	—	1,076	1,076
Residential mortgages:						
Closed end	1,368	1,557,196	1,558,564	18	19,329	19,347
Revolving home equity	—	83,625	83,625	—	689	689
Consumer and other	—	5,533	5,533	—	74	74
	$ 1,947	$ 2,948,405	$ 2,950,352	$ 18	$ 33,766	$ 33,784

	December 31, 2016					
Commercial and industrial	$ 131	$ 125,907	$ 126,038	$ —	$ 1,408	$ 1,408
Commercial mortgages:						
Multifamily	—	610,385	610,385	—	6,119	6,119
Other	—	371,142	371,142	—	4,296	4,296
Owner-occupied	558	103,113	103,671	—	959	959
Residential mortgages:						
Closed end	856	1,237,575	1,238,431	45	15,695	15,740
Revolving home equity	1,770	84,691	86,461	482	919	1,401
Consumer and other	—	9,293	9,293	—	134	134
	$ 3,315	$ 2,542,106	$ 2,545,421	$ 527	$ 29,530	$ 30,057

The following tables present the activity in the allowance for loan losses for the years ended December 31, 2017, 2016 and 2015.

(in thousands)	Balance at 1/1/17	Chargeoffs	Recoveries	Provision for Loan Losses (Credit)	Balance at 12/31/17
Commercial and industrial	$ 1,408	$ 102	$ 13	$ 122	$ 1,441
Commercial mortgages:					
Multifamily	6,119	—	—	304	6,423
Other	4,296	—	—	438	4,734
Owner-occupied	959	820	—	937	1,076
Residential mortgages:					
Closed end	15,740	97	3	3,701	19,347
Revolving home equity	1,401	100	—	(612)	689
Consumer and other	134	27	3	(36)	74