

FIRST OF LONG ISLAND CORP  
Form 10-K  
March 16, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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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,  
2014

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 11-2672906  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

10 Glen Head Road, Glen Head, NY 11545  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (516) 671-4900

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.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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, 2014, the last business day of the Corporation’s most recently completed second fiscal quarter, was \$343,659,281. This value was computed by reference to the price at which the stock was last sold on June 30, 2014 and excludes \$15,660,997 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, February 27, 2015
Common Stock, \$.10 par value	13,928,534

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for the Annual Meeting of Stockholders to be held April 21, 2015 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

General

The First of Long Island Corporation (“Registrant” or “Corporation”), 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 (“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: The First of Long Island Agency, Inc. (“Agency”), a licensed insurance agency under the laws of the State of New York; and FNY Service Corp., an investment company. The Bank and FNY Service Corp. jointly own another subsidiary, The First of Long Island REIT, Inc. (“REIT”), a real estate investment trust.

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 and income from investment management and trust services.

The Bank did not commence, abandon or significantly change any of its lines of business during 2014.

Markets Served and Products Offered

The Bank has historically served the financial needs of privately owned businesses, professionals, consumers, public bodies and other organizations primarily in Nassau and Suffolk Counties, Long Island, New York. Additionally, the Bank has two commercial banking branches in Manhattan. The Bank’s main office is located in Glen Head, New York, and the Bank has twenty-six other full service offices, eleven commercial banking offices and two select service banking centers. 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 primarily 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
- ACH Origination
- ATM Banking
- Bank by Mail
- Bill Payment
- Cash Management Services
- Collection Services
- Controlled Disbursement Accounts
- Drive-Through Banking
- Night Depository Services
- Online Banking
- Payroll Services
- Personal Money Orders
- Remote Deposit
- Safe Deposit Boxes
- Securities Transactions
- Signature Guarantee Services
- Telephone Banking

- Foreign Currency Sales and Purchases
- Lock Box Services
- Merchant Credit Card Services
- Mutual Funds, Annuities and Life Insurance
- Travelers Checks
- Investment Management and Trust Services
- Wire Transfers and Foreign Cables
- 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 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.

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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 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 issuer credit ratings for 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 will be analyzed and action will be taken if deemed appropriate.

At year-end 2014 and 2013, 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, 2014, \$430.7 million of the Corporation's municipal securities were rated AA or better, \$.2 million were rated A and \$.7 million were non-rated bonds of local municipalities. The Corporation's pass-through mortgage securities portfolio at December 31, 2014 is comprised of \$68.0 million, \$62.7 million and \$1.3 million of securities issued by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), 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 Fannie Mae and Freddie Mac, which are U.S. government-sponsored agencies, 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 policies. 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, 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, or the Federal Home Loan



Bank of New York advance rates.

Residential mortgage loans generally in excess of \$1.0 million and other loans in excess of \$500,000 require the approval of the Management Loan Committee. Loans in excess of \$9.0 million require the approval of two non-management members of the Board Loan Committee and those in excess of \$12.0 million require the recommendation of the Management Loan Committee and the approval of a majority of the Board of Directors. If there has been no deterioration in risk rating, an existing credit facility over \$12.0 million may be extended for twelve months or less with the approval of two non-management members of the Board Loan Committee.

Commercial and Industrial Loans. Commercial and industrial loans include, among other things, short-term business loans and lines of credit; term and installment loans; and loans secured by marketable securities, the cash surrender value of life insurance policies, deposit accounts or general business assets. 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 to businesses that generally have annual sales at the time of application of less than \$2 million. These loans take the form of revolving credit lines and, depending on the type of business, the maximum amount generally ranges from \$150,000 to \$250,000. Installment loans are generally made to finance business automobiles, trucks and equipment and can be secured by the asset financed and/or deposit accounts with the Bank. Both term 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. Moderate risk applicants may require further evaluation before a decision to approve or decline is made.

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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. Fixed rate residential mortgage loans with terms greater than twenty years are generally not maintained in the Bank's portfolio. Many of the residential mortgage loans made by the Bank in recent years are jumbo mortgages 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's usual practice is to lend no more than 80% 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 whether or not the subject property is an industrial building or 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 one year 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. Construction and land development loans are included in Commercial Mortgages on the Consolidated Balance Sheet and amounted to \$2,285,000 at December 31, 2014.

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<sup>®</sup> 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 and borrowings. 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 customer service, calling programs, lending relationships, referral sources, competitive pricing and advertising to attract and retain deposits. Currently, the Bank solicits deposits only from its local market area and does not have any deposits that qualify as brokered deposits under applicable Federal regulations. The flow

of deposits is influenced by general economic conditions, changes in interest rates and competition.

#### Employees

As of December 31, 2014, the Bank had 284 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.

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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”), as well as the Federal Deposit Insurance Corporation (“FDIC”). Insured banks, such as the Bank, are subject to extensive regulation of many aspects of their business. 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) permissible activities; (v) reserve requirements; and (vi) dealings with officers, directors and affiliates.

The Dodd-Frank Act made extensive changes in the regulation of depository institutions and their holding companies. Certain provisions of the Dodd-Frank Act are having an impact on the Corporation and the Bank. For example, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau 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, will 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 Consumer Financial Protection Bureau has limited back-up authority to examine such institutions.

**Bank Holding Company Regulation.** The BHC Act requires the prior approval of the Federal Reserve 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 has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

**Payment of Dividends.** The principal source of the Corporation’s liquidity is dividends from the Bank. The 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 2015 the Bank could declare dividends of approximately \$36.2 million plus any 2015 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 appropriate Federal regulatory authority 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. The appropriate Federal regulatory authorities have stated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding

companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

**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 codifies 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.

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Capital Requirements. As a bank holding company, the Corporation is subject to consolidated regulatory capital requirements administered by the Federal Reserve. Our Bank is subject to similar capital requirements administered by the OCC. For a discussion of regulatory capital rulemakings that will impact the Corporation and the Bank beginning January 1, 2015, see “Regulatory Rulemakings” included in Part II, Item 7 of this Form 10-K.

The Federal regulatory authorities’ risk-based capital guidelines that were applicable to the Corporation and Bank through December 31, 2014 were based upon the 1988 capital accord (“Basel I”) of the Basel Committee on Banking Supervision (“Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. These requirements were intended to ensure that banking organizations maintained adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under these requirements, banking organizations were required to maintain minimum ratios for Tier 1 capital and Total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization’s assets and some of its specified off-balance sheet commitments and obligations were assigned to various risk-weight categories defined by the Federal regulatory authorities.

A depository institution’s or holding company’s capital, in turn, was classified in one of two tiers, depending on type:

Core Capital (Tier 1). Tier 1 capital included common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities, less goodwill, most intangible assets and certain other assets.

Supplementary Capital (Tier 2). Subject to limitations, Tier 2 capital included, among other things, the allowance for loan and lease losses, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, and qualifying subordinated debt.

Under the capital requirements in effect through December 31, 2014, the Corporation, like other bank holding companies, was required to maintain Tier 1 capital and “Total capital” (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of total risk-weighted assets (including various off-balance-sheet items, such as letters of credit). Our Bank, like other depository institutions, was required to maintain similar capital levels under the capital adequacy guidelines. In addition, for a depository institution to be considered “well-capitalized” under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios were required to be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization’s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). Under the leverage ratio requirements in effect through December 31, 2014, a minimum Tier 1 leverage ratio of 3.0% was required for bank holding companies and national banks that either have the highest supervisory rating or have implemented the relevant Federal regulatory authority’s risk-adjusted measure for market risk. All other bank holding companies and national banks were required to maintain a minimum Tier 1 leverage ratio of 4.0%, unless a different minimum was specified by a relevant regulatory authority. In addition, for a depository institution to be considered “well-capitalized” under the regulatory framework for prompt corrective action, it had to have a Tier 1 leverage ratio of at least 5.0%. The Federal Reserve has not advised the Corporation, and the OCC has not advised the Bank, of any specific minimum Tier 1 leverage ratio applicable to either entity.

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” in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: “well-capitalized,”

“adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total risk-based capital ratio, the Tier 1 risk-based capital ratio and the Tier 1 leverage ratio.

Under the requirements in effect through December 31, 2014, a bank was (i) “well-capitalized” if it had a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a Tier 1 leverage ratio of 5.0% or greater, and was not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if it had a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a Tier 1 leverage ratio of 4.0% or greater and was not “well-capitalized”; (iii) “undercapitalized” if it had a total risk-based capital ratio that was less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a Tier 1 leverage ratio of less than 4.0%; (iv) “significantly undercapitalized” if it had a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a Tier 1 leverage ratio of less than 3.0%; and (v) “critically undercapitalized” if its tangible equity was equal to or less than 2.0% of average quarterly tangible assets. An institution could be downgraded to, or deemed to be in, a capital category that was lower than indicated by its capital ratios if it was determined to be in an unsafe or unsound condition or if it received an unsatisfactory examination rating with respect to certain matters. A bank’s capital category was determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not have constituted an accurate representation of the bank’s overall financial condition or prospects for other purposes.

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The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized.” “Undercapitalized” institutions are subject to growth limitations and are required to submit a capital restoration plan to the appropriate banking agencies. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution’s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.”

“Significantly undercapitalized” depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. “Critically undercapitalized” institutions are subject to the appointment of a receiver or conservator.

The appropriate Federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate Federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

As of December 31, 2014, the Bank was “well-capitalized” based on the aforementioned ratios.

**Regulatory Capital Rulemaking.** In July 2013, the Federal Reserve Board and the OCC approved a final rule that changes the regulatory capital framework and revises the prompt corrective action categories discussed above for all banking organizations. Subject to certain transition provisions, banking organizations like the Corporation with \$250 billion or less in total assets must comply with the new requirements beginning January 1, 2015. For a discussion of regulatory capital rulemakings, see “Regulatory Rulemakings” included in Part II, Item 7 of this Form 10-K.

**Deposit Insurance.** The FDIC imposes an assessment on financial institutions for deposit insurance. The assessment is based on the risk category of the institution, 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 and 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 and 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 any of such 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 “prompt corrective action” provisions of the FDIA. See “Prompt Corrective Action Regulations” above. 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. Our 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.

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Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System (“FHLB System”), which consists of 12 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 plus 0.2% 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. At December 31, 2014, 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 (“Treasury”) 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.

The Fair and Accurate Credit Transactions Act of 2003. The Fair and Accurate Credit Transactions Act of 2003 (“FACT Act”) includes many provisions concerning national credit reporting standards, and permits consumers to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires the Bank to notify its customers if it reports negative information about them to credit bureaus or if the credit that the Bank grants to them is on less favorable terms than are generally available. The Bank also must comply with guidelines established by the Federal banking regulators to help detect identity theft.

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 First National Bank of Long Island maintains a website at [www.fnbli.com](http://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 Exchange Act 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.

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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](http://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 risks faced by the Corporation include, among others, credit risk, allowance for loan loss risk, interest rate risk, liquidity risk, market risk for its common stock, economic conditions risk, operational risk, technology risk, key personnel risk, regulatory and legislative risk, income tax risk, external events risk and competitive risk. 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.

### Credit Risk

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 a board committee approved investment policy that, among other things, limits terms, types and amounts of holdings, and specifies 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. 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 board committee approved commercial, consumer and mortgage loan policies and by maintaining independent loan and appraisal review functions and an independent credit department. The loan policies contain 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 and environmental study requirements.

The credit risk within the Bank's loan portfolio primarily stems from factors such as borrower size, geographic concentration, industry concentration, real estate values, local and national 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, 2014, multifamily loans amounted to approximately \$529 million and comprised approximately 62% of the Bank's total commercial mortgage portfolio and approximately 31% 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 are dependent on the strength of the local economy.

Although certain metrics used to measure the strength of the economy have been improving, low labor force participation, stagnant disposable income and underemployment, the erosion of household disposable income, credit tightening for residential mortgages, foreclosures and, in certain micro markets, commercial vacancies still present meaningful threats to the maintenance of loan quality. 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. Environmental impairment of properties securing mortgage loans is also 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.

#### Allowance for Loan Loss Risk

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, 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 at any point in time 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. Such an adjustment 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.

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### Interest Rate Risk

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 ("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 could adversely affect the Bank's earnings. When interest rates are relatively low, as they currently are, borrowers tend to refinance higher rate loans at lower rates and prepayments on mortgages and mortgage 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 high 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 adjust to lower rates at their reset dates. The positive impact of lower interest rates on the Bank's cost of funds is currently constrained because many of the Bank's deposit products are at historically low rates with little if any room for further reductions, and because the Bank funds a significant portion of its average interest-earning assets with noninterest bearing checking deposits and capital.

In a period of rising interest rates, the Bank's loans and investment securities could reprice slower than its interest-bearing liabilities, which could initially have a negative effect on net interest income. Over a longer period of time, the effect on the Bank's earnings should be positive primarily because with the passage of time more loans and investment securities will reprice at the higher rates and there will be no offsetting increase in interest expense for those interest-earning assets funded by noninterest-bearing checking deposits and capital.

### Liquidity Risk

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 renewed 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, investment securities designated as available-for-sale, maturities and monthly payments on its investment securities and loan portfolios and operations.

The Bank is a member of the Federal Reserve Bank of New York ("FRB") and the FHLB of New York, has repurchase agreements in place with a number of brokerage firms and commercial banks and has federal funds lines with several commercial banks. In addition to customer deposits, the Bank's primary external sources of liquidity are secured borrowings from the FRB, FHLB of New York and repurchase agreement counterparties. In addition, the Bank can purchase overnight federal funds under its existing lines. However, the Bank's FRB membership, FHLB of New York membership, repurchase agreements and federal funds lines 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.

#### Market Risk for the Corporation's Common Stock

The Corporation's common stock is included in the Russell 3000 and Russell 2000 Indexes, which are reconstituted annually. Upon reconstitution in May 2014, the average market capitalization of companies in the Russell 2000 Index was \$1.7 billion, the median market capitalization was \$713 million, the capitalization of the largest company in the index was \$4.1 billion and the capitalization of the smallest company in the index was \$169 million. The Corporation's market capitalization on December 31, 2014 was approximately \$394 million. The Corporation believes that inclusion in the Russell indexes has 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.

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### Economic Conditions Risk

Although certain metrics used to measure the strength of the economy have been improving, national and local economic conditions continue to show signs of weakness. 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 caused by, among other things, suppressed real estate values, low labor force participation, stagnant disposable income and underemployment; 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; and volatile equity markets.

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

### Operational Risk

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.

### Technology Risk

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.

In addition, the Bank outsources certain 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.

The Bank has established board committee approved policies to prevent or limit the impact of systems failures, interruptions and security breaches and relies 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, transaction limits, firewalls, antivirus software, intrusion protection monitoring, vulnerability scans and independent penetration testing. System failures or interruptions are addressed in the Bank's emergency disaster recovery policy and its incident response and business continuity plans. In addition, for TPSPs of data processing and other significant services, the Bank obtains and reviews 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.

#### Key Personnel Risk

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 could have an adverse effect on the Bank's business, operating results and financial condition because their skills, knowledge of the Bank's market and years of industry experience may be difficult to replace.

#### Regulatory and Legislative Risk

The Corporation and the Bank are subject to regulation, supervision and examination by, among others, the Federal Reserve Board, OCC and FDIC, which 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 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 and capital, and imposing restrictions on the ability to pay cash dividends. 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. See the discussion of regulatory capital rulemakings included in the "Regulatory Rulemakings" section of Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

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Income Tax Risk

The Corporation is subject to income tax under Federal, New York State and New York City laws and regulations. Changes in such laws and regulations, including laws and regulations associated with having a captive REIT, could increase the Corporation's tax burden and such increase could have a material negative impact on its results of operations.

External Events Risk – Weather and Terrorism

Weather-related events have adversely impacted our market area, especially areas located near coastal waters and flood prone areas. 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 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.

Competitive Risk

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, 2014, the Bank owns a total of twenty buildings in fee simple and leases twenty-nine other facilities, all of which are in Nassau and Suffolk Counties, Long Island 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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASE 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, 2014, there were 611 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, 2014 and 2013.

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	2014			2013		
	Quarter High	Low	Dividends Declared	High	Low	Dividends Declared
First	\$ 28.58	\$ 24.47	\$ .17	\$ 20.45	\$ 18.70	\$ .17
Second	28.15	22.48	.17	22.33	18.71	.17
Third	26.77	22.22	.19	26.64	21.91	.17
Fourth	29.28	22.32	.19	28.70	24.75	.17

There are various legal limitations with respect to the Bank's ability to pay dividends to the Corporation and the Corporation's ability to pay dividends to its shareholders. Under the New York Business Corporation Law, the Corporation may pay dividends on its outstanding shares except when the Corporation is insolvent or would be made insolvent by the dividend. See Item 1, "Business – Supervision and Regulation - Payment of Dividends," for a discussion of the limitations on the ability of the Bank and the Corporation under federal banking laws and regulations to pay dividends.

## Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans is provided in Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this Form 10-K.

## Performance Graph

The following performance graphs compare the Corporation's total stockholder return with relevant market and bank stock indexes over 5-year measurement periods.

In prior years, the Corporation compared its 5-year stock performance to the NASDAQ Market and NASDAQ Bank Stocks Indexes. Beginning January 2014, NASDAQ no longer provides total return data for these indexes, but now provides total return data for the NASDAQ U.S. Benchmark and NASDAQ Banks Supersector Indexes, which are comparable to the former indexes. As a result of the change in total return data made available by NASDAQ, the Corporation is changing the indexes used in preparing the 5-year performance graph.

The first performance graph compares the Corporation's total stockholder return to the former and newly selected indexes over a 5-year measurement period ending December 31, 2013, which is the last day NASDAQ made available total return data for the former indexes. The second performance graph compares the Corporation's total stockholder return to the newly selected NASDAQ U.S. Benchmark and NASDAQ Banks Supersector Indexes over a 5-year measurement period ending December 31, 2014. Both performance graphs assume \$100 invested at the beginning of the applicable 5-year period and dividends reinvested in the Corporation's stock.

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## Issuer Purchase of Equity Securities

The Corporation did not repurchase any shares of its own common stock in the fourth quarter of 2014.

## ITEM 6. SELECTED FINANCIAL DATA

The following is selected consolidated financial data for the past five years. 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.

	2014	2013	2012	2011	2010
<b>INCOME STATEMENT DATA:</b>	(dollars in thousands, except per share data)				
Interest Income	\$81,976	\$74,851	\$76,229	\$76,312	\$72,403
Interest Expense	15,048	12,364	16,127	17,567	16,774
Net Interest Income	66,928	62,487	60,102	58,745	55,629
Provision for Loan Losses	3,189	2,997	3,628	4,061	3,973
Net Income	23,014	21,300	20,393	19,457	18,392
<b>PER SHARE DATA:</b>					
Basic Earnings	\$1.67	\$1.56	\$1.52	\$1.48	\$1.55
Diluted Earnings	1.65	1.55	1.51	1.46	1.53
Cash Dividends Declared	.72	.68	.64	.60	.56
Dividend Payout Ratio	43.64	% 43.87	% 42.38	% 41.10	% 36.60
Book Value	\$16.80	\$15.06	\$15.21	\$14.35	\$12.00
Tangible Book Value	16.78	15.05	15.19	14.34	11.98
<b>BALANCE SHEET DATA AT YEAR END:</b>					
Total Assets	\$2,721,494	\$2,399,892	\$2,108,290	\$2,022,407	\$1,711,023
Loans	1,804,819	1,477,937	1,147,384	985,859	902,959
Allowance for Loan Losses	23,221	20,848	18,624	16,572	14,014
Deposits	1,985,025	1,782,128	1,633,076	1,502,868	1,292,938
Borrowed Funds	481,486	395,463	248,634	309,727	253,590
Stockholders' Equity	233,303	206,556	205,370	189,347	156,694
<b>AVERAGE BALANCE SHEET DATA:</b>					
Total Assets	\$2,515,103	\$2,240,139	\$2,057,608	\$1,852,611	\$1,657,396
Loans	1,584,198	1,286,227	1,073,046	947,309	864,163
Allowance for Loan Losses	21,554	19,847	18,098	15,013	11,954
Deposits	1,922,172	1,747,888	1,578,233	1,439,647	1,310,507
Borrowed Funds	347,946	272,737	257,392	226,382	193,823
Stockholders' Equity	224,585	203,125	200,137	174,458	142,140
<b>FINANCIAL RATIOS:</b>					
Return on Average Assets (ROA)	.92	% .95	% .99	% 1.05	% 1.11
Return on Average Stockholders' Equity (ROE)	10.25	% 10.49	% 10.19	% 11.15	% 12.94
Average Equity to Average Assets	8.93	% 9.07	% 9.73	% 9.42	% 8.58

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

Overview – 2014 Versus 2013

Analysis of 2014 Earnings. Net income and earnings per share for 2014 were \$23.0 million and \$1.65, respectively, representing increases of 8.0% and 6.5%, respectively, over the comparable 2013 amounts. Dividends per share increased 5.9% from \$.68 for 2013 to \$.72 for 2014. Returns on average assets and average equity for 2014 were .92% and 10.25%, respectively, as compared to .95% and 10.49%, respectively, for 2013.

Net income for 2014 increased \$1.7 million over 2013. The increase is attributable to increases in net interest income of \$4.4 million, or 7.1%, and noninterest income of \$356,000, or 5.1%, as partially offset by an increase in noninterest expense of \$2.5 million, or 6.4%, and increases in the provision for loan losses and income tax expense of \$192,000 and \$360,000, respectively.

The increase in net interest income was driven by growth in average interest-earning assets of \$268.4 million, or 12.4%, as partially offset by a 15 basis point decline in net interest margin. The growth in average interest-earning assets is primarily comprised of growth in the average balances of loans of \$298.0 million, or 23.2%, and nontaxable securities of \$38.8 million, or 10.3%, as partially offset by a decrease in the average balance of taxable securities of \$71.9 million, or 14.5%. The shift from taxable securities to loans and nontaxable securities partially mitigated the negative impact on net interest income of a low interest rate environment. Growth in loans and nontaxable securities, to the extent not funded by the decline in taxable securities, was funded by growth in the average balances of long-term debt of \$114.9 million, or 62.1%, interest-bearing deposits of \$107.0 million, or 9.1%, and noninterest-bearing checking deposits of \$67.2 million, or 11.8%. Net interest margin declined from 3.18% in 2013 to 3.03% in 2014 as loans were repriced and cash flows were deployed in a low interest rate environment.

The \$356,000 increase in noninterest income is primarily attributable to an increase in Investment Management Division income and increases in net gains on sales of securities and loans held-for-sale, as partially offset by a reduction in real estate tax refunds. The \$2.5 million increase in noninterest expense is comprised of increases in salaries, occupancy and equipment expense and other noninterest expense, as partially offset by a decrease in employee benefits expense.

Analysis of Fourth Quarter 2014 Earnings. Net income for the fourth quarter of 2014 was \$5.5 million, an increase of 5.5% over \$5.2 million earned in the same quarter of 2013. The increase is primarily attributable to an increase in net interest income of \$1.1 million and a decrease in income tax expense of \$486,000, as partially offset by an increase in noninterest expense of \$1.3 million. The increase in net interest income occurred for substantially the same reasons discussed with respect to the full year periods. The decrease in income tax expense is primarily attributable to changes in New York State tax law that became effective beginning on January 1, 2015. Earnings per share was \$.39 for the fourth quarter of 2014, an increase of 5.4% over \$.37 for the same quarter of 2013.

Asset Quality. The Bank's allowance for loan losses to total loans (reserve coverage ratio) decreased by 12 basis points from 1.41% at year-end 2013 to 1.29% at year-end 2014. The decrease is primarily due to a continued improvement in economic conditions, a reduction in watch, special mention and substandard loans and a decrease in specific reserves on loans individually deemed to be impaired.

The credit quality of the Bank's loan portfolio remains excellent. Nonaccrual loans amounted to \$1.7 million, or .09% of total loans outstanding, at December 31, 2014, compared to \$4.5 million, or .30%, at December 31, 2013. Troubled debt restructurings declined by \$1.1 million during the year to \$2.0 million at December 31, 2014. Of this amount, \$704,000 are performing in accordance with their modified terms and \$1.3 million are nonaccrual and included in the aforementioned amount of nonaccrual loans. The decrease in nonaccrual loans largely resulted from the restoration of

two loans to an accruing status, loan sales and chargeoffs. The decrease in troubled debt restructurings largely resulted from the disposition of a loan held-for-sale. Loans past due 30 through 89 days at December 31, 2014 amounted to \$2.2 million, or .12% of total loans outstanding, compared to \$184,000, or .01% of total loans outstanding at December 31, 2013. Management does not believe that the increase in these past due loans 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 82% 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.

Capital Ratios and Book Value Per Share. The Corporation's Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios were 8.49%, 14.24% and 15.49%, respectively, at December 31, 2014. Book value per share increased 11.6% during 2014 to \$16.80 at December 31, 2014. The strength of the Corporation's balance sheet from both a capital and asset quality perspective positions the Corporation for continued growth in a measured and disciplined fashion.

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On September 16, 2014, 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 October 15, 2014 to stockholders of record on October 1, 2014.

**Key Strategic Initiatives.** Key strategic initiatives will continue to include loan, deposit and fee income growth. Loan and deposit growth will be driven by effective relationship management, targeted solicitation efforts, new product offerings and continued expansion of the Bank's branch distribution system. Additionally, with respect to loan growth, the Bank will continue to develop its existing broker and correspondent relationships. All loans originated through such relationships are underwritten by Bank personnel. The Bank recently opened branches in Oceanside, Manhasset and Greenlawn, Long Island bringing the Bank's total branch count to 40. In 2015, the Bank expects to relocate and expand an existing branch and open up to four new branches. Management is continuing to evaluate sites for further branch expansion in 2016 and future years.

**Challenges We Face.** Intermediate and long-term interest rates are low and volatile and significantly impacted by both national and global forces. Such rates could remain low for the foreseeable future and thereby cause both investing and lending rates to be suboptimal. There is significant price competition for loans in the Bank's marketplace and little room for the Bank to further reduce its deposit rates. Higher yielding loans continue to prepay and be replaced with lower yielding loans and there is an ongoing need, from an interest rate risk perspective, to term-fund a portion of the Bank's loan growth with time deposits and wholesale borrowings. In the current interest rate environment, the spread between lending rates and term-funding rates is relatively small. The persistence of these factors could result in a decline in net interest margin from its current level. If that were to occur, and management is unable to offset the resulting negative impact on earnings by increasing the volume of the Bank's interest-earning assets, effecting a favorable change in the mix of the Bank's interest-earning assets or interest-bearing liabilities, reducing expenses or the employment of other measures, the Bank's profitability could decline.

The banking industry continues to be faced with new and complex regulatory requirements and enhanced supervisory oversight. These factors are exerting downward pressure on revenues and upward pressure on required capital levels and the cost of doing business.

## Overview – 2013 Versus 2012

**Analysis of 2013 Earnings.** Net income and earnings per share for 2013 were \$21.3 million and \$1.55, respectively, representing increases over the comparable 2012 amounts of 4.4% and 2.6%, respectively. Dividends per share increased by 6.3% from \$.64 for 2012 to \$.68 for 2013. Returns on average assets and average equity for 2013 were .95% and 10.49%, respectively, as compared to .99% and 10.19%, respectively, for 2012.

Net income for 2013 increased by \$907,000 over 2012. The increase was primarily attributable to an increase in net interest income of \$2.4 million, or 4.0%, a decrease in the provision for loan losses of \$631,000, or 17.4%, and an increase in noninterest income (excluding securities gains) of \$454,000, or 6.9%. Partially offsetting these items were increases in noninterest expense (excluding debt extinguishment costs) of \$2.1 million, or 5.5%, and income tax expense of \$718,000, or 14.3%. Results for 2012 included a net loss of \$338,000 on a deleveraging transaction, comprised of \$3.8 million of debt extinguishment costs partially offset by \$3.5 million of securities gains.

The increase in net interest income resulted from an increase in average interest-earning assets of \$177.4 million, or 8.9%, as partially offset by a 16 basis point decline in net interest margin. The increase in average interest-earning assets was primarily attributable to increases in the average balances of loans outstanding of \$213.2 million, or 19.9%, as partially offset by a decrease in the average balance of taxable securities of \$46.2 million, or 8.5%. The shift from taxable securities to loans and nontaxable securities partially mitigated the negative impact on net interest income of a low interest rate environment. Partially offsetting these items was a 16 basis point decline in net interest margin from 3.34% in 2012 to 3.18% in 2013. Net interest margin declined year-over-year as loans were repriced and cash flows



were deployed in a low interest rate environment.

Loan growth, to the extent not funded by the decline in taxable securities, was funded by growth in the average balances of noninterest-bearing checking deposits of \$99.9 million, or 21.3%, interest-bearing deposits of \$69.8 million, or 6.3%, and short-term borrowings of \$30.5 million, or 53.2%.

The \$631,000 decrease in the provision for loan losses was due to a reduction in historical losses, a change in management's estimate of the impact of current economic conditions on the required allowance for loan losses and a decrease in net chargeoffs. The impact of these items in reducing the provision was partially offset by more loan growth in 2013 than 2012 and a smaller decrease in 2013 than 2012 in reserves on loans individually deemed to be impaired.

The increase in noninterest income (excluding securities gains) of \$454,000 was largely attributable to increases in Investment Management Division income and other noninterest income. The \$2.1 million increase in noninterest expense (excluding debt extinguishment costs) was comprised of increases in salaries, employee benefits expense, occupancy and equipment expense, and other noninterest expense.

Analysis of Fourth Quarter 2013 Earnings. Net income for the fourth quarter of 2013 was \$5.2 million, an increase of 2.5% over \$5.1 million for the fourth quarter of 2012. The increase in net income was attributable to increases in net interest income of \$1.2 million, or 8.2%, and noninterest income of \$188,000, or 11.4%, as largely offset by increases in noninterest expense of \$747,000, or 7.8%, the provision for loan losses of \$437,000 and income tax expense of \$104,000.

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The increase in net interest income occurred for substantially the same reasons discussed with respect to the full year periods. The provision for loan losses increased in the fourth quarter largely because of more loan growth and a partial chargeoff on a loan transferred to held-for-sale, as partially offset by a decrease during the fourth quarter of 2013 in specific reserves on loans individually deemed to be impaired. Earnings per share remained unchanged at \$.37 in each quarter.

**Asset Quality.** The Bank's allowance for loan losses to total loans (reserve coverage ratio) was 1.41% at December 31, 2013 compared to 1.62% at year-end 2012. The reserve coverage ratio decreased due to a reduction in the portion of the allowance attributable to historical losses and management's assessment of current economic conditions. The \$3.0 million provision for loan losses for 2013 was primarily attributable to loan growth and net chargeoffs, as partially offset by an improvement in economic conditions, a decrease in historical loss rates used to determine the allowance for loan losses and a decrease in specific reserves on loans individually deemed to be impaired. The \$3.6 million provision for loan losses for 2012 was mostly attributable to loan growth and net chargeoffs.

The credit quality of the Bank's loan portfolio remained excellent at December 31, 2013, with nonaccrual loans, including a \$900,000 loan held-for-sale, amounting to \$4.5 million, or .3% of total loans outstanding. The held-for-sale loan was sold in January 2014 for its carrying value of \$900,000. Additionally, loans past due 30 through 89 days amounted to only \$184,000, or .01% of total loans outstanding. Troubled debt restructurings declined during 2013 amounting to \$3.1 million at the end of the year compared to \$4.4 million at year-end 2012. Of the \$3.1 million in troubled debt restructurings outstanding at December 31, 2013, which included the \$900,000 loan held-for-sale, \$541,000 were performing in accordance with their modified terms and \$2.5 million were nonaccrual and included in the aforementioned amount of nonaccrual loans. The credit quality of the Bank's securities portfolio also remained excellent at December 31, 2013. The Bank's mortgage securities were backed by mortgages underwritten on conventional terms, with 83% 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.

**Capital.** The Corporation's Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios were 8.62%, 15.77% and 17.02%, respectively, at December 31, 2013.

**Deleveraging Transaction in 2012.** During 2012, the Bank executed a deleveraging transaction and also refinanced a portion of its overnight borrowings with long-term debt. These transactions were undertaken to bolster the Bank's Tier 1 leverage capital ratio and potentially reduce the negative impact that an eventual increase in interest rates could have on the Bank's earnings.

The deleveraging transaction involved using the proceeds from the sale of investment securities with a market value of \$97.1 million to extinguish long-term debt with a redemption value of \$68.8 million. The excess proceeds on this transaction were initially used to repay short-term borrowings and eventually used to fund a combination of loan originations and securities purchases. The net loss of \$338,000 on the deleveraging transaction resulted from the combination of \$3.8 million in debt extinguishment costs and \$3.5 million in securities gains. The refinancing strategy involved the repayment of \$50 million of overnight borrowings with approximately equal amounts of six and seven year term borrowings.

### **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 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 Allowance for Loan and Lease Losses 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 Office of the Comptroller of the Currency ("OCC") whose safety and soundness examination includes a determination as to its adequacy 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.

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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 the starting point in determining its allowance for loan losses. 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 considers a variety of qualitative factors to adjust its historical loss experience to reflect current conditions. (For a detailed description of these factors see Note A to the Corporation's consolidated financial statements included in Item 8 of this Form 10-K.) Because of the nature of the factors and the difficulty in assessing their impact, management's resulting estimate of losses may not accurately reflect actual losses in the portfolio.

The allowance for loan losses is comprised of impairment losses on loans specifically reviewed and estimated losses on the 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.

## 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.

	2014			2013			2012		
	Average Balance	Interest/ Dividends	Average Rate	Average Balance	Interest/ Dividends	Average Rate	Average Balance	Interest/ Dividends	Average Rate
	(dollars in thousands)								
Assets:									
Interest-bearing bank balances	\$16,675	\$36	.22 %	\$13,166	\$34	.26 %	\$12,809	\$31	.24 %
Investment securities:									
Taxable	423,929	9,323	2.20	495,818	10,130	2.04	541,970	13,805	2.55
Nontaxable (1)	414,972	20,315	4.90	376,131	19,342	5.14	366,146	19,306	5.27
Loans (1)	1,584,198	59,224	3.74	1,286,227	51,940	4.04	1,073,046	49,679	4.63
Total interest-earning assets	2,439,774	88,898	3.64	2,171,342	81,446	3.75	1,993,971	82,821	4.15
Allowance for loan losses	(21,554 )			(19,847 )			(18,098 )		
Net interest-earning assets	2,418,220			2,151,495			1,975,873		
Cash and due from banks	26,608			28,328			27,476		
Premises and equipment, net	26,429			24,747			23,334		
Other assets	43,846			35,569			30,925		
	\$2,515,103			\$2,240,139			\$2,057,608		

Liabilities and Stockholders' Equity:									
Savings, NOW and money market deposits	\$972,136	1,955	.20	\$925,044	2,302	.25	\$839,143	3,393	.40
Time deposits	313,318	6,171	1.97	253,369	5,040	1.99	269,492	5,803	2.15
Total interest-bearing deposits	1,285,454	8,126	.63	1,178,413	7,342	.62	1,108,635	9,196	.83
Short-term borrowings	48,220	148	.31	87,882	288	.33	57,351	195	.34
Long-term debt	299,726	6,774	2.26	184,855	4,734	2.56	200,041	6,736	3.37
Total interest-bearing liabilities	1,633,400	15,048	.92	1,451,150	12,364	.85	1,366,027	16,127	1.18
Checking deposits	636,718			569,475			469,598		
Other liabilities	20,400			16,389			21,846		
	2,290,518			2,037,014			1,857,471		
Stockholders' equity	224,585			203,125			200,137		
	\$2,515,103			\$2,240,139			\$2,057,608		
Net interest income (1)		\$73,850			\$69,082			\$66,694	
Net interest spread (1)			2.72 %			2.90 %			2.97 %
Net interest margin (1)			3.03 %			3.18 %			3.34 %

(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 \$1.52 in each period presented, based on a Federal income tax rate of 34%.

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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.

	2014 Versus 2013				2013 Versus 2012			
	Increase (decrease) due to changes in:							
	Volume	Rate	Rate/ Volume (1)	Net Change	Volume	Rate	Rate/ Volume (1)	Net Change
	(in thousands)							
Interest Income:								
Interest-bearing bank balances	\$9	\$(6)	\$(1)	\$2	\$1	\$2	\$-	\$3
Investment securities:								
Taxable	(1,469)	774	(112)	(807)	(1,176)	(2,732)	233	(3,675)
Nontaxable	1,997	(928)	(96)	973	526	(477)	(13)	36
Loans	12,033	(3,855)	(894)	7,284	9,870	(6,348)	(1,261)	2,261
Total interest income	12,570	(4,015)	(1,103)	7,452	9,221	(9,555)	(1,041)	(1,375)
Interest Expense:								
Savings, NOW & money market deposits	117	(442)	(22)	(347)	347	(1,305)	(133)	(1,091)
Time deposits	1,193	(50)	(12)	1,131	(347)	(442)	26	(763)
Short-term borrowings	(130)	(18)	8	(140)	104	(7)	(4)	93
Long-term debt	2,942	(556)	(346)	2,040	(511)	(1,613)	122	(2,002)
Total interest expense	4,122	(1,066)	(372)	2,684	(407)	(3,367)	11	(3,763)
Increase (decrease) in net interest income	\$8,448	\$(2,949)	\$(731)	\$4,768	\$9,628	\$(6,188)	\$(1,052)	\$2,388

(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 – 2014 Versus 2013

Net interest income on a tax-equivalent basis was \$73.9 million in 2014, an increase of \$4.8 million, or 6.9%, from \$69.1 million in 2013. The increase resulted from an increase in average interest-earning assets of \$268.4 million, or 12.4%, as partially offset by a 15 basis point decline in net interest margin.

The increase in average interest-earning assets is primarily attributable to growth in the average balances of loans of \$298.0 million, or 23.2%, and nontaxable securities of \$38.8 million, or 10.3%, as partially offset by a decrease in the average balance of taxable securities of \$71.9 million, or 14.5%. Although most of the loan growth occurred in residential and commercial mortgage loans, commercial and industrial loans grew as well. The Bank's continued ability to grow loans is attributable to a variety of factors including, among others, competitive pricing, targeted solicitation efforts, advertising campaigns, and broker relationships for both residential and commercial mortgages.

Growth in loans and nontaxable securities, to the extent not funded by the decline in taxable securities, was funded by growth in the average balances of long-term debt of \$114.9 million, or 62.1%, noninterest-bearing checking deposits of \$67.2 million, or 11.8%, time deposits of \$59.9 million, or 23.7%, and savings, NOW and money market deposits of \$47.1 million, or 5.1%. The Bank's ongoing ability to grow deposits is attributable to, among other things, continued expansion of the Bank's branch distribution system, targeted solicitation of local commercial businesses and municipalities, new and expanded lending relationships, new small business checking and loan products and the

expansion of merchant sales relationships. In addition, management believes that the Bank's positive reputation in its marketplace has contributed to both loan and deposit growth. The increase in long-term debt together with the increase in the average balance of time deposits resulted from management's desire to reduce the impact that an increase in interest rates could have on the Bank's future earnings.

Intermediate and long-term interest rates remain low and volatile. In a low rate environment lending and investing rates decline and the spread between these rates and the related funding cost generally narrows. In addition, the benefit of no cost funding in the form of noninterest-bearing checking deposits and capital is reduced, some loans prepay in full resulting in the immediate writeoff of deferred costs while the rates on other loans are modified downward, and prepayment speeds on mortgage securities can be relatively high, thereby resulting in the faster amortization of purchase premiums. These factors are primarily responsible for a 15 basis point decline in the Bank's net interest margin from 3.18% in 2013 to 3.03% in 2014. They also explain why strong growth in the average balances of loans, nontaxable securities and noninterest-bearing checking deposits was accompanied by only moderate growth in net interest income.

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Net Interest Income – 2013 Versus 2012

Net interest income on a tax-equivalent basis was \$69.1 million in 2013, an increase of \$2.4 million, or 3.6%, from \$66.7 million in 2012. The increase resulted from an increase in average interest-earning assets of \$177.4 million, or 8.9%, as partially offset by a 16 basis point decline in net interest margin.

The growth in average interest-earning assets was primarily attributable to increases in the average balances of loans outstanding of \$213.2 million, or 19.9%, as partially offset by a decrease in the average balance of taxable securities of \$46.2 million, or 8.5%. Although most of the loan growth occurred in residential and commercial mortgage loans, commercial and industrial loans grew as well. Loan growth, to the extent not funded by the decline in taxable securities, was funded by growth in the average balances of noninterest-bearing checking deposits of \$99.9 million, or 21.3%, interest-bearing deposits of \$69.8 million, or 6.3%, and short-term borrowings of \$30.5 million, or 53.2%.

Intermediate and long-term interest rates moved up significantly in 2013 but remained relatively low. In the low rate environment, despite significant growth in the average balances of loans and noninterest-bearing checking deposits, the Bank's net interest income only increased by \$2.4 million over 2012. In addition, net interest margin declined by 16 basis points from 3.34% in 2012 to 3.18% in 2013 as loans repriced and cash flows were deployed in a very low interest rate environment.

Although the average balance of long-term debt decreased during 2013 as compared to 2012, the balance at December 31, 2013 of \$285 million was \$140 million higher than December 31, 2012. The increase in long-term debt resulted from management's desire to better match the duration of the Bank's assets and liabilities and thereby hedge against an eventual increase in interest rates.

Noninterest Income

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

Noninterest income increased \$356,000, or 5.1%, when comparing 2014 to 2013. The increase is primarily attributable to an increase in Investment Management Division income of \$186,000 and increases in net gains on sales of securities and loans held-for-sale of \$125,000 and \$165,000, respectively, as partially offset by a \$72,000 reduction in real estate tax refunds. Also contributing to the increase in noninterest income were increases in charge card fees, debit card interchange fees and income from the sale of mutual funds and annuities. The increase in Investment Management Division income resulted from appreciation in the market value of assets under management and, to a lesser extent, new business and an updated fee schedule.

Noninterest income (excluding securities gains) increased \$454,000, or 6.9%, when comparing 2013 to 2012. The increase was largely attributable to increases in Investment Management Division income of \$248,000, or 15.3%, and other noninterest income of \$240,000, or 12.6%. The increase in Investment Management Division income was due to appreciation in the market value of assets under management and, to a lesser extent, new business. The \$240,000 increase in other noninterest income included increases in debit and credit card fees of \$120,000, or 33.9%, and mortgage assignment and other loan related fees of \$82,000, or 29.6%. Gains on sales of securities decreased by \$3.6 million when comparing 2013 to 2012 as a result of the deleveraging transaction in 2012.

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 increased \$2.5 million, or 6.4%, when comparing 2014 to 2013. The increase is comprised of increases in salaries of \$1.7 million, or 10.1%, occupancy and equipment expense of \$1.2 million, or 15.8%, and other noninterest expense of \$279,000, or 3.0%, as partially offset by a decrease in employee benefits expense of \$684,000, or 12.4%. The increase in salaries is primarily due to higher stock-based compensation expense of \$919,000, branch openings, additions to staff in the back office and normal annual salary adjustments. The increase in stock-based compensation expense is primarily attributable to an increase in the value of awards granted in 2014, and a reduction in the estimated number of shares to be issued upon the vesting of restricted stock units (“RSUs”) and forfeitures of some outstanding awards in 2013. Awards granted in 2014 include 13,823 RSUs with a value of \$358,000 that vested immediately. The award of 13,823 RSUs was based on a recent study of executive compensation performed by an independent compensation consulting firm at the direction of the Board Compensation Committee. The increase in occupancy and equipment expense is largely due to new branch openings and increases in general maintenance and repairs expense, snow removal costs and the cost of servicing equipment. The increase in other noninterest expense includes an increase in marketing expense and growth-related increases in FDIC insurance expense and the Bank’s OCC assessment. The decrease in employee benefits expense is primarily attributable to a decrease in pension expense resulting from favorable performance of plan assets during 2013 and a decrease in the plan’s benefit obligation at year-end 2013 caused by an increase in long-term interest rates.

Noninterest expense (excluding debt extinguishment costs) increased \$2.1 million, or 5.5%, when comparing 2013 to 2012. The increase was comprised of increases in salaries of \$800,000, or 4.9%, employee benefits expense of \$482,000, or 9.6%, occupancy and equipment expense of \$404,000, or 5.6%, and other noninterest expense of \$374,000, or 4.3%. The increase in salaries was primarily due to normal annual salary adjustments and additions to staff, as partially offset by a decrease in stock-based compensation expense. Stock-based compensation expense declined because of a reduction in the estimated number of shares to be issued upon the vesting of RSUs and forfeitures of some outstanding awards. The increase in employee benefits expense was primarily attributable to increases in incentive compensation cost, payroll tax expense and group health insurance expense, as partially offset by a decrease in pension expense. The increase in occupancy and equipment expense was largely due to increases in general maintenance and repairs expense, snow removal costs, rent expense and the cost of servicing equipment. The increase in other noninterest expense includes increases in consulting expense and marketing expense and growth-related increases in FDIC insurance expense and the Bank’s OCC assessment. Debt extinguishment costs of \$3.8 million in 2012 resulted from the deleveraging transaction.

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## Income Taxes

Income tax expense as a percentage of book income (“effective tax rate”) was 20.9% in 2014, 21.2% in 2013 and 19.7% in 2012. The effective tax rate reflects the tax benefits of the Bank’s municipal securities portfolio, bank-owned life insurance, captive REIT and investment company. The effective tax rate for 2014 also reflects a reduction in deferred income taxes payable attributable to changes in New York State tax law that became effective January 1, 2015.

## Financial Condition

Total assets were \$2.7 billion at December 31, 2014, an increase of \$321.6 million, or 13.4%, from the previous year-end. The increase was primarily attributable to growth in loans of \$326.9 million, or 22.1%, and an increase in bank-owned life insurance of \$17.4 million, partially offset by a reduction in investment securities of \$20.9 million, or 2.6%. The increase in volume and change in the mix of the Bank’s interest-earning assets helped to offset the negative impact on earnings of the decline in net interest margin caused by the low interest rate environment.

Asset growth during 2014 was largely funded by deposit growth and increases in long-term debt, short-term borrowings and stockholders’ equity. Total deposits grew \$202.9 million, or 11.4%, to \$2.0 billion, long-term debt grew \$60.0 million, or 21.1%, to \$345.0 million, and short-term borrowings grew \$26.0 million, or 23.6%, to \$136.5 million, at December 31, 2014. For the year, noninterest-bearing checking deposits increased \$56.6 million, or 9.5%, savings, NOW and money market deposits increased \$82.4 million, or 9.0%, and time deposits increased \$63.9 million, or 24.1%. Stockholders’ equity at year-end 2014 totaled \$233.3 million, an increase of \$26.7 million from year-end 2013.

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, 2014, 2013 and 2012.

	2014	2013	2012
		(in	
		thousands)	
Held-to-Maturity Securities:			
State and municipals	\$ 19,836	\$ 27,968	\$ 36,255
Pass-through mortgage securities	856	1,878	3,782
Collateralized mortgage obligations	1,141	2,258	4,130
	\$ 21,833	\$ 32,104	\$ 44,167
Available-for-Sale Securities:			
State and municipals	\$ 411,797	\$ 356,553	\$ 332,513
Pass-through mortgage securities	131,181	151,818	84,956
Collateralized mortgage obligations	231,167	276,422	399,965
	\$ 774,145	\$ 784,793	\$ 817,434

The following table presents the maturities and weighted average yields of the Bank’s investment securities at December 31, 2014.

	Principal Maturing <sup>(1)</sup>							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
Held-to-Maturity Securities:								
State and municipals (2)	\$2,924	4.98 %	\$8,534	5.98 %	\$7,545	6.03 %	\$833	6.21 %

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Pass-through mortgage securities	-	-	-	-	281	6.22	575	5.30
Collateralized mortgage obligations	-	-	-	-	-	-	1,141	5.30
	\$2,924	4.98 %	\$8,534	5.98 %	\$7,826	6.04 %	\$2,549	5.60 %

Available-for-Sale Securities: (3)

State and municipals (2)	\$5,308	5.05 %	\$21,002	4.28 %	\$122,450	4.03 %	\$263,037	5.47 %
Pass-through mortgage securities	-	-	503	5.83	51,026	1.20	79,652	2.10
Collateralized mortgage obligations	-	-	-	-	33,738	1.78	197,429	2.37
	\$5,308	5.05 %	\$21,505	4.32 %	\$207,214	2.97 %	\$540,118	3.84 %

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 (1) 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.

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(2) Yields on tax-exempt municipal securities have been computed on a tax-equivalent basis.

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

During 2014, the Bank received cash dividends totaling \$739,000 on its Federal Reserve Bank and Federal Home Loan Bank of New York stock, representing an average yield of 4.27%.

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

	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Commercial and industrial	\$77,140	\$71,818	\$54,339	\$42,572	\$39,055
Commercial mortgages:					
Multifamily	529,093	469,486	278,503	229,925	208,682
Other	222,537	162,874	141,986	140,738	125,521
Owner-occupied	107,345	83,651	83,879	89,919	83,299
Residential mortgages:					
Closed end	779,994	605,343	502,367	386,478	346,195
Revolving home equity	83,109	77,581	81,975	91,630	94,417
Consumer and Other	5,601	7,184	4,335	4,597	5,790
	1,804,819	1,477,937	1,147,384	985,859	902,959
Allowance for loan losses	(23,221 )	(20,848 )	(18,624 )	(16,572 )	(14,014 )
	\$1,781,598	\$1,457,089	\$1,128,760	\$969,287	\$888,945

Commercial mortgage loans outstanding at December 31, 2014 include \$2,285,000 of variable rate construction loans due within one year. Commercial and industrial loans at December 31, 2014 include \$5,742,000 of small business credit scored loans.

Maturity and rate information for the Bank's commercial and industrial loans outstanding at December 31, 2014 is set forth below.

	Maturity				
	Within One Year	After One But Within Five Years	After Five Years	Total	
	(in thousands)				
Commercial and industrial loans:					
Fixed rate	\$416	\$9,915	\$4,046	\$14,377	
Variable rate	37,533	22,861	2,369	62,763	
	\$37,949	\$32,776	\$6,415	\$77,140	

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.

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	December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Nonaccrual loans (1):					
Troubled debt restructurings	\$1,280	\$2,548	\$2,430	\$1,637	\$-
Other	424	1,948	1,668	1,574	3,936
Total nonaccrual loans	1,704	4,496	4,098	3,211	3,936
Loans past due 90 days or more and still accruing	-	-	-	-	-
Other real estate owned	-	-	-	-	-
Total nonperforming assets	1,704	4,496	4,098	3,211	3,936
Troubled debt restructurings - performing	704	541	1,953	3,757	2,433
Total risk elements	\$2,408	\$5,037	\$6,051	\$6,968	\$6,369
Nonaccrual loans as a percentage of total loans	.09 %	.30 %	.36 %	.33 %	.44 %
Nonperforming assets as a percentage of total loans and other real estate owned	.09 %	.30 %	.36 %	.33 %	.44 %
Risk elements as a percentage of total loans and other real estate owned	.13 %	.34 %	.53 %	.71 %	.71 %

(1) Includes loans held-for-sale

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Gross interest income on nonaccrual loans and troubled debt restructurings:					
Amount that would have been recorded during the year under original terms	\$127	\$311	\$365	\$369	\$332
Actual amount recorded during the year	33	60	134	246	300

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.

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.

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December 31, 2014								
Internally Assigned Risk Rating								
	1 - 2	3 - 4	5 - 6	Watch	Special Mention	Substandard	Doubtful	Total
(in thousands)								
Commercial and industrial	\$1,737	\$2,033	\$73,114	\$65	\$ -	\$ 191	\$ -	\$77,140
Commercial mortgages:								
Multifamily	-	39,849	479,425	7,610	1,906	303	-	529,093
Other	-	14,495	205,502	900	-	1,640	-	222,537
Owner-occupied	622	2,494	103,327	-	-	902	-	107,345
	\$2,359	\$58,871	\$861,368	\$8,575	\$ 1,906	\$ 3,036	\$ -	\$936,115
December 31, 2013								
Commercial and industrial	\$6,021	\$6,208	\$58,120	\$280	\$ 1,155	\$ 34	\$ -	\$71,818
Commercial mortgages:								
Multifamily	-	31,211	428,459	9,470	-	346	-	469,486
Other	-	10,424	148,812	601	-	3,037	-	162,874
Owner-occupied	-	3,871	71,810	4,161	837	2,972	-	83,651
	\$6,021	\$51,714	\$707,201	\$14,512	\$ 1,992	\$ 6,389	\$ -	\$787,829

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, 2014								
Internally Assigned Risk Rating								
	1	2	3	Watch	Special Mention	Substandard	Doubtful	Total
(in thousands)								
Residential mortgages:								
Closed end	\$720,093	\$41,882	\$15,871	\$1,066	\$ -	\$ 1,082	\$ -	\$779,994
Revolving home equity	70,948	6,552	5,230	99	-	280	-	83,109
Consumer and Other	4,836	160	126	-	-	-	-	5,122
	\$795,877	\$48,594	\$21,227	\$1,165	\$ -	\$ 1,362	\$ -	\$868,225
December 31, 2013								
Residential mortgages:								
Closed end	\$554,579	\$30,530	\$16,916	\$1,779	\$ -	\$ 1,539	\$ -	\$605,343
Revolving home equity	64,135	7,324	5,559	352	-	211	-	77,581
Consumer and Other	5,068	520	214	-	-	-	-	5,802
	\$623,782	\$38,374	\$22,689	\$2,131	\$ -	\$ 1,750	\$ -	\$688,726

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 \$2.4 million during 2014, amounting to \$23.2 million, or 1.29% of total loans, at December 31, 2014, as compared to \$20.8 million, or 1.41% of total loans, at December 31, 2013. The decrease in the reserve coverage ratio was primarily due to a continued improvement in economic conditions, a reduction in watch, special mention and substandard loans and a decrease in

specific reserves on loans individually deemed to be impaired.

During 2014, the Bank had loan chargeoffs and recoveries of \$834,000 and \$18,000, respectively, and recorded a \$3.2 million provision for loan losses. The \$3.2 million provision for loan losses for 2014 was primarily attributable to loan growth and net chargeoffs, as partially offset by continued improvement in economic conditions, a reduction in watch, special mention and substandard loans and a decrease in specific reserves on loans individually deemed to be impaired. The \$3.0 million provision for loan losses for 2013 was primarily attributable to loan growth and net chargeoffs, as partially offset by an improvement in economic conditions, a decrease in historical loss rates used to determine the allowance for loan losses and a decrease in specific reserves on loans individually deemed to be impaired.

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.



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

	Year ended December 31,					
	2014	2013	2012	2011	2010	
	(dollars in thousands)					
Balance, beginning of year	\$20,848	\$18,624	\$16,572	\$14,014	\$10,346	
Loans charged off:						
Commercial and industrial	96	-	5	-	-	
Commercial mortgages:						
Multifamily	-	-	501	1,257	325	
Other	37	-	-	233	-	
Owner-occupied	400	-	-	-	-	
Residential mortgages:						
Closed end	121	914	659	8	-	
Revolving home equity	173	-	450	100	22	
Consumer and Other	7	18	4	36	30	
	834	932	1,619	1,634	377	
Recoveries of loans charged off:						
Commercial and industrial	2	19	4	115	46	
Commercial mortgages:						
Multifamily	-	-	4	9	-	
Other	-	113	19	-	-	
Residential mortgages:						
Closed end	3	13	10	1	-	
Revolving home equity	4	-	-	-	-	
Consumer and Other	9	14	6	6	26	
	18	159	43	131	72	
Net chargeoffs	816	773	1,576	1,503	305	
Provision for loan losses	3,189	2,997	3,628	4,061	3,973	
Balance, end of year	\$23,221	\$20,848	\$18,624	\$16,572	\$14,014	
Ratio of net chargeoffs to average loans outstanding	.05	% .06	% .15	% .16	% .04	%

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

	December 31,		2013		2012		2011		2010	
	2014									
	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 Total Loans
	(dollars in thousands)									
Commercial and industrial	\$838	4.3	\$808	4.9	\$834	4.7	\$699	4.3	\$803	4.3
Commercial mortgages:										
Multifamily	7,207	29.3	7,348	31.8	5,342	24.3	5,365	23.3	3,848	23.1
Other	2,340	12.3	1,501	11.0	1,978	12.4	2,316	14.3	2,303	13.9
Owner-occupied	1,023	6.0	1,191	5.7	1,163	7.3	1,388	9.1	1,529	9.2

Residential mortgages:										
Closed end	10,599	43.2	8,607	40.9	7,729	43.8	5,228	39.2	4,059	38.4
Revolving home equity	1,121	4.6	1,240	5.2	1,453	7.1	1,415	9.3	1,415	10.5
Consumer and Other	93	.3	153	.5	125	.4	161	.5	57	.6
	\$23,221	100.0%	\$20,848	100.0%	\$18,624	100.0%	\$16,572	100.0%	\$14,014	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 95% of the Bank's total loans outstanding at December 31, 2014. 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 unfavorable for an extended period of time as characterized by elevated levels of unemployment and underemployment, suppressed commercial and residential real estate values and, in certain micro markets, elevated commercial real estate vacancies. 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.

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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 \$202.9 million, or 11.4%, to \$2.0 billion at December 31, 2014. The increase was attributable to growth in noninterest-bearing checking deposits of \$56.6 million, or 9.5%, savings, NOW and money market deposits of \$82.4 million, or 9.0%, and time deposits of \$63.9 million, or 24.1%. The largest segment of the deposit base is savings, NOW and money market deposits which represent 50.4% of total deposits at December 31, 2014.

The remaining maturities of the Bank's time deposits at December 31, 2014 can be found in "Note E – Deposits" to the Corporation's December 31, 2014 consolidated financial statements.

Borrowings include short-term and long-term FHLB borrowings and borrowings under repurchase agreements. Total borrowings increased \$86.0 million during 2014 to \$481.5 million at year-end. The increase is principally due to an increase in fixed rate long-term debt of \$60.0 million.

**Capital.** The Corporation's capital management policy is designed to build and maintain capital levels that exceed regulatory standards. Under regulatory capital standards in effect at December 31, 2014, banks are classified as well capitalized, adequately capitalized or undercapitalized. Under such standards, a well-capitalized bank is one that has a Tier 1 leverage capital ratio equal to or greater than 5%, a Tier 1 risk-based capital ratio equal to or greater than 6%, and a total risk-based capital ratio equal to or greater than 10%. The Bank's Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 8.49%, 14.23% and 15.48%, respectively, at December 31, 2014 exceed the requirements for a well-capitalized bank and, based on management's belief, are adequate in the current regulatory and economic environments. The strength of the Bank's balance sheet, from both a capital and asset quality perspective, positions the Bank for continued growth in a measured and disciplined fashion. The Corporation on a consolidated basis is subject to minimum risk-based and leverage capital requirements, which the Corporation exceeds as of December 31, 2014.

Stockholders' equity totaled \$233.3 million at December 31, 2014, an increase of \$26.7 million from \$206.6 million at December 31, 2013. The increase was primarily attributable to net income of \$23.0 million, an increase in accumulated other comprehensive income of \$9.1 million and the issuance of shares under the Corporation's stock-based compensation, dividend reinvestment and stock purchase plans of \$3.4 million, partially offset by cash dividends declared of \$10.0 million. Accumulated other comprehensive income increased due to an increase in the after-tax amount of unrealized gains on available-for-sale securities of \$10.7 million, as partially offset by a change in the funded status of the Bank's defined benefit pension plan of \$1.6 million.

The ratio of average stockholders' equity to average total assets declined from 9.1% for 2013 to 8.9% for 2014. The decrease occurred because the growth rate in average total assets of 12.3% during 2014, primarily due to 23.2% growth in average loans, exceeded the 10.6% growth rate in average stockholders' equity. The Corporation had returns on average equity of 10.25%, 10.49% and 10.19% and returns on average assets of .92%, .95% and .99%, for the years ended December 31, 2014, 2013 and 2012, respectively.

For a discussion of regulatory capital rulemakings, see "Regulatory Rulemakings" included in Part II, Item 7 of this Form 10-K.

## Cash Flows and Liquidity

**Cash Flows.** During 2014, the Corporation's cash and cash equivalent position declined by \$2.6 million, from \$35.5 million at December 31, 2013 to \$32.9 million at December 31, 2014. The decrease occurred primarily because cash

used to originate loans, purchase investment securities, pay cash dividends, invest in bank-owned life insurance and restricted stock and expand and improve physical facilities exceeded the cash provided by the growth in deposits and borrowings, maturities and paydowns of loans and securities and operations.

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, 2014, the Bank had approximately \$404 million of unencumbered available-for-sale securities. In addition, based on securities and loan collateral in place at the FRB and FHLB of New York, the Bank had borrowing capacity of approximately \$1.3 billion at December 31, 2014.

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## Off-Balance Sheet Arrangements and Contractual Obligations

The Corporation's off-balance sheet arrangements and contractual obligations at December 31, 2014 are summarized in the table that follows. Unused home equity lines are the largest component of the amount shown for commitments to extend credit. 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 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 purchaser prior to contractual maturity (see Note F to the Corporation's December 31, 2014 consolidated financial statements for more detailed 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, 2014 pursuant to off-balance sheet arrangements and contractual obligations.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed or Less	One Year or Less	Over One Year Through Three Years	Over Three Years Through Five Years	Over Five Years
	(in thousands)				
Commitments to extend credit	\$214,464	\$127,454	\$24,014	\$31,698	\$31,298
Standby letters of credit	4,043	4,043	-	-	-
Long-term debt	345,000	20,000	84,550	200,950	39,500
Operating lease obligations	9,996	1,583	2,868	2,172	3,373
Purchase obligations	8,118	1,997	4,100	2,021	-
Time deposits	328,947	109,822	67,952	128,901	22,272
	\$910,568	\$264,899	\$183,484	\$365,742	\$96,443

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. Required pension plan contributions for years beyond 2015 are not presently known and are therefore not included in the table. The Bank has no minimum required pension contribution for the Plan year ending September 30, 2015.

## 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.

#### Regulatory Rulemakings

**Capital.** In July 2013, the Federal Reserve Board and the OCC approved a final rule (“final rule”) that changes the regulatory capital framework for all banking organizations and revises the prompt corrective action categories to incorporate the revised regulatory capital standards. The final rule implements for U.S. banks the Basel III regulatory capital reforms of the Basel Committee and certain changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rule strengthens areas of weakness identified in the Basel I capital rules by: (1) enhancing the quantity and quality of regulatory capital in the banking system; (2) better reflecting the risk of certain on and off-balance sheet exposures in the measurement of risk-weighted assets; and (3) building additional capital capacity into the banking system to absorb losses in times of future market and economic stress. Subject to certain transition provisions, banking organizations like the Corporation with \$250 billion or less in total assets must comply with the new requirements beginning January 1, 2015.

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The final rule establishes new prompt corrective action requirements for all banks and includes a new common equity Tier 1 risk-based capital measure. The risk-based capital (“RBC”) and leverage capital requirements under the final rule are set forth in the table that follows.

Requirement	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 final rule also sets forth a capital ratio phase-in schedule. The phase-in provisions for banks with \$250 billion or less in total assets are set forth in the following table.

January 1,	2015	2016	2017	2018	2019
Minimum Leverage Measure (%)	4.0	4.0	4.0	4.0	4.0
Minimum Common Equity Tier 1 RBC (%)	4.5	4.5	4.5	4.5	4.5
Capital Conservation Buffer (%) <sup>(1)</sup>	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

The capital conservation buffer must be maintained in order for a banking organization to avoid being subject to <sup>(1)</sup>limitations on capital distributions, including dividend payments, and discretionary bonus payments to executive officers.

The final rule includes comprehensive guidance with respect to the measurement of risk-weighted assets. For residential mortgages, Basel III retains the risk-weights contained in the current capital rules which assign a risk-weight of 50% to most first-lien exposures and 100% to other residential mortgage exposures. The final rule would increase the risk-weights associated with certain on-balance sheet assets, such as high volatility commercial real estate loans, as defined, and loans that are more than 90 days past due or in nonaccrual status. Capital

requirements would also increase for certain off-balance sheet exposures including, for example, loan commitments with an original maturity of one year or less.

Under the final rule, certain banking organizations, including the Corporation, are permitted to make a one-time election to continue the current treatment of excluding from regulatory capital most accumulated other comprehensive income (“AOCI”) components, including amounts relating to unrealized gains and losses on available-for-sale debt securities and amounts attributable to defined benefit postretirement plans. Institutions that elect to exclude most AOCI components from regulatory capital under Basel III will be able to avoid volatility that would otherwise be caused by things such as the impact of fluctuations in interest rates on the fair value of available-for-sale debt securities. The Corporation and the Bank currently intend to elect to exclude AOCI components from regulatory capital under Basel III.

Management does not expect implementation of the final rule to have a material impact on the Corporation’s regulatory capital position, lines of business or profitability.

Liquidity. In December 2010, the Basel Committee published “Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring” and in January 2013 published a revised liquidity coverage ratio (collectively referred to as the “Liquidity Standard”). The Liquidity Standard includes: (1) a liquidity coverage ratio to ensure that sufficient high quality liquid resources are available in case of a liquidity crisis; (2) a net stable funding ratio to promote liquidity resiliency over longer time horizons by creating incentives for banks to fund their activities with stable sources of funding on an ongoing basis; and (3) additional liquidity monitoring metrics focused on maturity mismatch, concentration of funding and available unencumbered assets. The Liquidity Standard would be phased-in through 2019.



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In November 2013, the U.S. banking agencies issued a Notice of Proposed Rulemaking (“NPR”) that would implement a quantitative liquidity requirement consistent with the liquidity coverage ratio established by the Basel Committee. The NPR applied to all internationally active banking organizations, systemically important non-bank financial institutions and certain other large holding companies with more than \$50 billion in total assets. The transition period in the NPR was shorter than that provided by the Basel Committee. On September 3, 2014, the U.S. banking agencies issued a final liquidity rule that establishes for the first time a standardized minimum liquidity requirement. The final rule applies to large and internationally active banking organizations and is not applicable to the Bank. The U.S. banking agencies have not adopted or proposed rules to implement a quantitative liquidity requirement for banks such as the Bank with less than \$50 billion in total assets, and it is uncertain whether such a requirement will be established.

### New York State Tax Reform

On March 31, 2014, the New York State legislature approved the fiscal 2015 budget bill (the “legislation”) which includes significant changes to New York State tax law impacting banks. The banking corporation franchise tax under Article 32 is repealed effective January 1, 2015, and banks are now subject to the general business corporation franchise tax under a substantially revised Article 9A.

While the following discussion is not intended to cover all aspects of the legislation impacting banks, it does address what management believes to be the more significant ones. Except where noted, the changes are effective for tax years beginning on or after January 1, 2015.

- 1) The franchise tax rate on business income is reduced from 7.1% to 6.5% effective January 1, 2016.
- 2) The Metropolitan Commuter Transportation District tax surcharge is made permanent and raised from 17% to 25.6% of the franchise tax.
- 3) The alternative entire net income tax and tax on subsidiary capital are eliminated. As a result, banks will now pay a franchise tax equal to the highest of their calculated business income tax, capital tax or fixed dollar minimum tax. The maximum tax on capital is increased from \$1 million to \$5 million, and the fixed dollar minimum tax, which was previously capped at \$5,000, will range from \$5,000 to \$200,000.
- 4) The methodology for determining income apportionment, or the degree to which a bank’s income is allocated to and taxed by New York State, is changing from a three-factor formula based on receipts, payroll and deposits to solely receipts. In addition, favorable apportionment treatment is provided for interest income from federal, state and municipal debt; asset backed securities; certain corporate bonds; and federal funds.
- 5) The 22.5% deduction for interest income on government obligations is eliminated.
- 6) The tax savings associated with a grandfathered Article 9A corporation, like FNY Service Corp., is eliminated.
- 7) For real estate investment trusts (“REITs”) in place as of April 1, 2014 (grandfathered REITs), the law allows a subtraction modification to entire net income equal to 160% of the dividends paid deduction allowed for federal income tax purposes.
- 8) For banks other than those that maintain grandfathered REITs during the tax year, there are two new alternative subtraction modifications in arriving at entire net income. Both subtraction modifications, as summarized below, are mutually exclusive and involve complex calculations and analyses.

a)

Percentage-of-taxable-income bad debt deduction computed as the excess of 32 percent of taxable income before the deduction over the amount of the federal bad debt deduction already taken. This deduction is only available to thrifts and community banks, as defined, who satisfy the qualified thrift lender 60 percent asset test, as defined.

- b) An exclusion of one-half of the net interest income of the institution from residential mortgages and small business loans, as defined.

For 2015, management has decided to use the new alternative subtraction modification for REITs.

Management believes that the changes included in the legislation will reduce the Bank's annual tax burden by an amount ranging from \$600,000 to \$700,000.

#### 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 ("EVE") 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.

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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. Gap analysis also assumes that cash flows from maturing assets and liabilities will be reinvested in or refinanced by assets and liabilities of the same type, and 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, 2014, 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							
	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	Total
Assets:	(in thousands)							
Overnight investments	\$735	\$-	\$-	\$735	\$-	\$-	\$-	\$735
Investment securities	24,663	26,086	45,701	96,450	203,953	472,912	22,663	795,978
Loans	188,314	21,325	55,064	264,703	815,067	722,866	(21,038)	1,781,598
Other assets	23,304	-	31,568	54,872	-	-	88,311	143,183
	237,016	47,411	132,333	416,760	1,019,020	1,195,778	89,936	2,721,494
Liabilities & Stockholders' Equity:								
Checking deposits	-	-	-	-	-	-	655,753	655,753
Savings, NOW and money market	170,533	57,809	115,617	343,959	534,829	121,537	-	1,000,325

deposits								
Time deposits, \$100,000 and over	39,503	18,891	16,373	74,767	122,216	11,762	-	208,745
Time deposits, other	18,799	8,857	7,399	35,055	74,637	10,510	-	120,202
Borrowed funds	136,486	10,000	10,000	156,486	285,500	39,500	-	481,486
Other liabilities	-	-	-	-	-	-	21,680	21,680
Stockholders' equity	-	-	-	-	-	-	233,303	233,303
	365,321	95,557	149,389	610,267	1,017,182	183,309	910,736	2,721,494
Interest-rate sensitivity gap	\$(128,305)	\$(48,146 )	\$(17,056 )	\$(193,507)	\$1,838	\$1,012,469	\$(820,800)	\$-
Cumulative interest-rate sensitivity gap	\$(128,305)	\$(176,451)	\$(193,507)	\$(193,507)	\$(191,669 )	\$820,800	\$-	\$-

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. Nonetheless, 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. Conversely, net interest income in the near-term could be negatively impacted if the rates paid on the Bank's deposit accounts are increased at the same time and in the same amount as increases in the rates earned on the Bank's interest-earning assets. Furthermore, a decrease in short-term interest rates would likely have a negative impact on the Bank's net interest income in the near term because interest rates are currently very low and there is little if any room to reduce the rates being paid on the Bank's deposit accounts below current levels.

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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 (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, 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, 2014 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 on a tax-equivalent basis for the year ending December 31, 2015 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 based on a base case average life of 5.2 years.

The rate change information in the table shows estimates of net interest income on a tax-equivalent basis for the year ending December 31, 2015 and calculations of EVE at December 31, 2014 assuming rate changes of plus 100, 200 and 300 basis points and minus 100 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 affected.

Net Interest Income

Rate Change Scenario (dollars in thousands)	Economic Value of Equity for 2015 at December 31, 2014			
	Amount	Percent Change From Base Case	Amount	Percent Change From Base Case
+ 300 basis point rate shock	\$ 176,786	-30.8 %	\$ 70,523	-11.1 %
+ 200 basis point rate shock	219,101	-14.2 %	78,137	-1.5 %
+ 100 basis point rate shock	248,112	-2.8 %	80,824	1.8 %
Base case (no rate change)	255,347	-	79,363	-
- 100 basis point rate shock	237,563	-7.0 %	76,390	-3.7 %

As shown in the preceding table, assuming a static balance sheet, an immediate decrease in interest rates of 100 basis points or an immediate increase in interest rates of 200 or 300 basis points could negatively impact the Bank's net interest income for the year ended December 31, 2015. Conversely, an immediate increase in interest rates of 100 basis points could positively impact the Bank's net interest income for the same time period. The Bank's net interest income could be negatively impacted in a shock down 100 basis point scenario because, among other things, the rates currently being paid on many of the Bank's deposit products are approaching zero and there is little room to reduce them further. Unlike the shock up 100 basis point scenario, in the shock up 200 or 300 basis point scenarios it is assumed that the Bank will need to make more significant changes to the rates paid on its nonmaturity deposits in order to remain competitive and thus net interest income could be negatively impacted. 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.

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Forward-Looking Statements

This report on Form 10-K and the documents incorporated into it by reference 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,” “estimate,” “forecast,” “project” and other 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.

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SUPPLEMENTARY DATA

## CONSOLIDATED BALANCE SHEETS

December 31 (in thousands)	2014	2013
Assets:		
Cash and due from banks	\$32,209	\$35,034
Temporary investments	735	463
Cash and cash equivalents	32,944	35,497
Investment securities:		
Held-to-maturity, at amortized cost (fair value of \$22,870 and \$33,548)	21,833	32,104
Available-for-sale, at fair value	774,145	784,793
	795,978	816,897
Loan held-for-sale	-	900
Loans:		
Commercial and industrial	77,140	71,818
Secured by real estate:		
Commercial mortgages	858,975	716,011
Residential mortgages	779,994	605,343
Home equity lines	83,109	77,581
Consumer	5,601	7,184
	1,804,819	1,477,937
Allowance for loan losses	(23,221 )	(20,848 )
	1,781,598	1,457,089
Restricted stock, at cost	23,304	19,869
Bank premises and equipment, net	27,854	24,463
Bank-owned life insurance	31,568	14,185
Pension plan assets, net	16,421	18,532
Other assets	11,827	12,460
	\$2,721,494	\$2,399,892
Liabilities:		
Deposits:		
Checking	\$655,753	\$599,114
Savings, NOW and money market	1,000,325	917,974
Time, \$100,000 and over	208,745	173,379
Time, other	120,202	91,661
	1,985,025	1,782,128
Short-term borrowings	136,486	110,463
Long-term debt	345,000	285,000
Accrued expenses and other liabilities	13,247	13,141
Deferred income taxes payable	8,433	2,604
	2,488,191	2,193,336
Commitments and Contingent Liabilities (Note M)		



Stockholders' Equity:

Common stock, par value \$.10 per share:

Authorized, 40,000,000 shares

Issued and outstanding, 13,887,134 and 9,141,767 shares

Surplus

Retained earnings

Accumulated other comprehensive income, net of tax

	1,389	914
	51,009	46,873
	170,120	157,107
	222,518	204,894
	10,785	1,662
	233,303	206,556
	\$2,721,494	\$2,399,892

See notes to consolidated financial statements

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## CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31 (dollars in thousands, except per share data)	2014	2013	2012
Interest and dividend income:			
Loans	\$59,209	\$51,921	\$49,651
Investment securities:			
Taxable	9,359	10,164	13,836
Nontaxable	13,408	12,766	12,742
	81,976	74,851	76,229
Interest expense:			
Savings, NOW and money market deposits	1,955	2,302	3,393
Time deposits	6,171	5,040	5,803
Short-term borrowings	148	288	195
Long-term debt	6,774	4,734	6,736
	15,048	12,364	16,127
Net interest income	66,928	62,487	60,102
Provision for loan losses	3,189	2,997	3,628
Net interest income after provision for loan losses	63,739	59,490	56,474
Noninterest income:			
Investment Management Division income	2,058	1,872	1,624
Service charges on deposit accounts	2,974	3,019	3,053
Net gains on sales of securities	141	16	3,613
Other	2,228	2,138	1,898
	7,401	7,045	10,188
Noninterest expense:			
Salaries	18,885	17,160	16,360
Employee benefits	4,833	5,517	5,035
Occupancy and equipment	8,880	7,669	7,265
Debt extinguishment	-	-	3,812
Other	9,433	9,154	8,780
	42,031	39,500	41,252
Income before income taxes	29,109	27,035	25,410
Income tax expense	6,095	5,735	5,017
Net Income	\$23,014	\$21,300	\$20,393
Weighted average:			
Common shares	13,807,482	13,633,479	13,372,839
Dilutive stock options and restricted stock units	147,105	124,746	128,312
	13,954,587	13,758,225	13,501,151
Earnings per share:			
Basic	\$1.67	\$1.56	\$1.52
Diluted	\$1.65	\$1.55	\$1.51
Cash dividends declared per share	\$ .72	\$ .68	\$ .64

See notes to consolidated financial statements

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (in thousands)	2014	2013	2012
Net income	\$23,014	\$21,300	\$20,393
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on available-for-sale securities	18,046	(33,060)	(1,011)
Change in funded status of pension plan	(2,581)	8,057	(561)
Other comprehensive income (loss) before income taxes	15,465	(25,003)	(1,572)
Income tax expense (benefit)	6,342	(9,925)	(624)
Other comprehensive income (loss)	9,123	(15,078)	(948)
Comprehensive Income	\$32,137	\$6,222	\$19,445

See notes to consolidated financial statements

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## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)	Common Stock		Surplus	Retained Earnings	Accumulated	Total
	Shares	Amount			Other Comprehensive Income	
Balance, January 1, 2012	8,793,932	\$ 879	\$37,507	\$133,273	\$ 17,688	\$189,347
Net income				20,393		20,393
Other comprehensive loss					(948 )	(948 )
Repurchase of common stock	(13,150 )	(1 )	(368 )			(369 )
Common stock issued under stock compensation plans, including tax benefit	145,604	14	2,724			2,738
Common stock issued under dividend reinvestment and stock purchase plan	75,300	8	1,998			2,006
Stock-based compensation			782			782
Cash dividends declared				(8,579 )		(8,579 )
Balance, December 31, 2012	9,001,686	900	42,643	145,087	16,740	205,370
Net income				21,300		21,300
Other comprehensive loss					(15,078 )	(15,078 )
Repurchase of common stock	(3,211 )		(95 )			(95 )
Common stock issued under stock compensation plans, including tax benefit	74,209	7	1,573			1,580
Common stock issued under dividend reinvestment and stock purchase plan	69,083	7	2,160			2,167
Stock-based compensation			592			592
Cash dividends declared				(9,280 )		(9,280 )
Balance, December 31, 2013	9,141,767	914	46,873	157,107	1,662	206,556
Net income				23,014		23,014
Other comprehensive income					9,123	9,123
Repurchase of common stock	(9,243 )	(1 )	(285 )			(286 )
Common stock issued under stock compensation plans, including tax benefit	74,671	8	1,193			1,201
Common stock issued under dividend reinvestment and stock purchase plan	67,139	7	2,224			2,231
3-for-2 stock split	4,612,800	461	(507 )			(46 )
Stock-based compensation			1,511			1,511
Cash dividends declared				(10,001 )		(10,001 )
Balance, December 31, 2014	13,887,134	\$ 1,389	\$51,009	\$170,120	\$ 10,785	\$233,303

See notes to consolidated financial statements

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2014	2013	2012
<b>Cash Flows From Operating Activities:</b>			
Net income	\$23,014	\$21,300	\$20,393
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,189	2,997	3,628
Net gain on loans held-for-sale	(165 )	-	(28 )
Deferred income tax provision (credit)	(594 )	(801 )	2,835
Depreciation and amortization	2,855	2,824	2,816
Premium amortization on investment securities, net	6,435	8,664	8,981
Net gains on sales of securities	(141 )	(16 )	(3,613 )
Net gain on sale of premises and equipment	(7 )	-	-
Loss on extinguishment of debt	-	-	3,812
Stock-based compensation expense	1,511	592	782
Accretion of cash surrender value on bank-owned life insurance	(520 )	(520 )	(500 )
Pension expense (credit) less contribution	(471 )	425	(5,328 )
Decrease in other assets	633	1,336	688
Increase (decrease) in accrued expenses and other liabilities	(155 )	2,885	555
Net cash provided by operating activities	35,584	39,686	35,021
<b>Cash Flows From Investing Activities:</b>			
Proceeds from sales of held-to-maturity securities	2,423	722	-
Proceeds from sales of available-for-sale securities	3,390	1,780	102,687
Proceeds from maturities and redemptions of investment securities:			
Held-to-maturity	8,840	12,120	18,427
Available-for-sale	101,991	137,256	136,518
Purchase of investment securities:			
Held-to-maturity	(814 )	(689 )	(400 )
Available-for-sale	(83,159 )	(148,193)	(169,171)
Proceeds from sales of other real estate owned and loans held-for-sale	3,265	427	928
Net increase in loans to customers	(329,898)	(332,651)	(164,000)
Net increase in restricted stock	(3,435 )	(6,765 )	(820 )
Purchases of bank premises and equipment, net	(6,246 )	(3,016 )	(5,570 )
Proceeds from sales of premises and equipment	7	-	-
Purchase of bank-owned life insurance	(16,863 )	-	-
Net cash used in investing activities	(320,499)	(339,009)	(81,401 )
<b>Cash Flows From Financing Activities:</b>			
Net increase in total deposits	202,897	149,052	130,208
Net increase in short-term borrowings	26,023	6,829	1,407
Proceeds from long-term debt	60,000	140,000	62,500
Repayment of long-term debt	-	-	(128,812)
Proceeds from issuance of common stock, net	2,185	2,167	2,006
Proceeds from exercise of stock options	1,055	1,418	2,603
Tax benefit of stock compensation plans	224	162	135
Repurchase and retirement of common stock	(286 )	(95 )	(369 )
Cash dividends paid	(9,736 )	(6,904 )	(10,602 )

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Net cash provided by financing activities	282,362	292,629	59,076
Net increase (decrease) in cash and cash equivalents	(2,553 )	(6,694 )	12,696
Cash and cash equivalents, beginning of year	35,497	42,191	29,495
Cash and cash equivalents, end of year	\$32,944	\$35,497	\$42,191

Supplemental Information:

Cash paid for:

Interest	\$15,683	\$10,905	\$15,378
Income taxes	6,200	6,325	2,874
Noncash investing and financing activities:			
Cash dividends payable	2,642	2,376	-
Loans transferred from portfolio to other real estate owned and held-for-sale	2,200	1,325	900

See notes to consolidated financial statements

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## 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 (“Corporation”) and its wholly-owned subsidiary, The First National Bank of Long Island (“Bank”), 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, federal funds sold 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 accounted for on the cash basis or cost-recovery method until the loans qualify for return to an accrual status. Return to an accrual status occurs when all the principal and interest amounts contractually due are brought current and all future payments are reasonably assured.

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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 median home prices and commercial vacancy rates in the Bank's service area and national and local unemployment levels, (3) trends in the nature and volume of loans, (4) concentrations of credit, (5) changes in lending policies and procedures, (6) experience, ability and depth of lending staff, (7) changes in the quality of the loan review function, (8) environmental risks, and (9) 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.

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### Bank-owned Life Insurance

The Bank is the owner and beneficiary of insurance policies on the lives of certain officers. Bank-owned life insurance 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.

### Restricted Stock

The Bank is a member of and owns stock in the Federal Home Loan Bank of New York (“FHLB of New York”) and the Federal Reserve Bank of New York (“FRB”). The FHLB of New York requires member banks to own stock, the amount of which is based on membership and the level of FHLB of New York advances. The stocks 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 income.

### Long-term Assets

Premises and equipment, intangible assets, 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 customer collateral or ability to repay. The Bank maintains a reserve for losses on off-balance-sheet credit exposures which is included in accrued expense 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

Each of the Bank’s commercial checking accounts has 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.

### Retirement Plans

Pension expense is the sum of service cost, interest cost and amortization of prior service costs and actuarial gains and losses, net of the expected return on plan assets. 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. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options and restricted stock units (“RSUs”) were converted into shares of common stock that then shared in the earnings of the Corporation. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive stock options and RSUs. There were no anti-dilutive stock options at December 31, 2014 or 2013. There were 69,153 anti-dilutive stock options at December 31, 2012. There were no anti-dilutive RSUs at December 31, 2014, 2013 or 2012. Other than the stock options and RSUs described in Note J and the Rights described in Note I, 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.

Shares Tendered Upon the Exercise of Stock Options and Withheld Upon the Vesting of RSUs. The amount shown for 2014 on the line captioned "Repurchase of common stock" in the Consolidated Statement of Changes in Stockholders' Equity represents 518 shares with a value of \$21,000 tendered upon the exercise of stock options and 8,725 shares with a value of \$265,000 withheld upon the conversion of RSUs. The amount shown for 2013 represents 3,211 shares with a value of \$95,000 withheld upon the conversion of RSUs. The amount shown for 2012 represents 8,450 shares with a value of \$244,000 tendered upon the exercise of stock options and 4,700 shares with a value of \$125,000 withheld upon the conversion of RSUs.

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**Stock Split.** On September 16, 2014, 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 October 15, 2014 to stockholders of record on October 1, 2014, and are shown for 2014 on the line captioned “3-for-2 stock split” in the Consolidated Statement of Changes in Stockholders’ Equity. Issuance costs of \$46,000 were charged to Surplus. 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.

**Stock-based Compensation**

The Corporation’s stock-based compensation plans are described in Note J. Compensation cost is determined for stock options and restricted stock units (“RSUs”) issued to employees based on the grant date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period.

For stock options, compensation expense 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.

Compensation expense for performance-based RSUs is recognized over a three-year performance period and adjusted periodically to reflect the estimated number of shares of the Corporation’s common stock into which the RSUs will ultimately be convertible. However, if the period between the grant date and the grantee’s eligible retirement date is less than three years, compensation expense is recognized ratably over this shorter period without regard to performance. Compensation expense for service-based RSUs is recognized over a two to three year service-based vesting period. Compensation expense of \$358,000 for RSUs awarded in 2014 with immediate vesting was recognized in full on the grant date.

In determining compensation expense for stock options and RSUs outstanding and not yet vested, the Corporation assumes, based on prior experience that no forfeitures will occur.

**Comprehensive Income**

Comprehensive income includes net income and other comprehensive income. Other comprehensive income 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 is recognized as a separate component of stockholders’ equity.

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

	2014	2013	2012
Net unrealized holding gains (losses) on available-for-sale securities:	(in thousands)		
Change arising during period	\$18,068	\$(33,061)	\$2,602
Reclassification adjustment for losses (gains) included in net income (1)	(22 )	1	(3,613)
Net unrealized holding gains (losses) on available-for-sale securities	18,046	(33,060)	(1,011)
Tax effect	7,369	(13,123)	(401 )
	10,677	(19,937)	(610 )
Change in funded status of pension plan:			
Unrecognized net gain (loss) arising during period	(2,597 )	7,403	(1,248)
Amortization of prior service cost included in pension expense (2)	16	23	23
Amortization of net actuarial loss included in pension expense (2)	-	631	664
	(2,581 )	8,057	(561 )
Tax effect	(1,027 )	3,198	(223 )
	(1,554 )	4,859	(338 )
Other comprehensive income (loss)	\$9,123	\$(15,078)	\$(948 )

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

these net realized gains or losses.

(2) Represents the amortization into expense of prior service cost and net actuarial loss relating to the Corporation's defined benefit pension plan. These items are included in net periodic pension cost (see "Note K – Retirement Plans") and in the consolidated statements of income in the line item, "Employee benefits." The income tax expense relating to these costs is included in the consolidated statements of income in the line item, "Income tax expense."

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

	Balance 12/31/13	Current Period Change	Balance 12/31/14
	(in thousands)		
Unrealized holding gains on available-for-sale securities	\$2,783	\$10,677	\$13,460
Unrealized actuarial losses and prior service costs on pension plan	(1,121)	(1,554)	(2,675)
Total accumulated other comprehensive income	\$1,662	\$9,123	\$10,785

## 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 2014.

## 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 January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04 "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in ASU 2014-04 are intended to reduce diversity in practice by clarifying when an in-substance repossession or foreclosure occurs, that is, when a creditor such as the Bank should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Additionally, the amendments in ASU 2014-04 require interim and annual disclosure of both the amount of foreclosed residential real estate property held by a creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities such as the Corporation, the amendments are effective for interim and annual reporting periods beginning after December 15, 2014. Early adoption in 2014 was permitted. ASU 2014-04 is not expected to have a material impact on the Corporation's financial position, results of operations or disclosures.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." The amendments in ASU 2014-09 are intended to improve financial reporting by providing a comprehensive framework for addressing revenue recognition issues that can be applied to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. 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 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 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. Management is currently evaluating the impact that the amendments in ASU 2014-09 could have on the Corporation's financial position, results of operations and disclosures, but does not currently believe that such impact will be material.



In June 2014, the FASB issued ASU 2014-11 “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” The amendments in ASU 2014-11 change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting. The amendments also require new disclosures about certain transfers of financial assets and the types of collateral pledged in repurchase agreements and similar transactions. For public entities such as the Corporation, the amendments are generally effective for interim and annual reporting periods beginning after December 15, 2014. Early adoption for public entities is prohibited. ASU 2014-11 is not expected to have a material impact on the Corporation’s financial position, results of operations or disclosures.

In June 2014, the FASB issued ASU 2014-12 “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 provides guidance on the accounting for share-based payments in which the terms of an award provide that an employee can cease rendering service before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The amendments in ASU 2014-12 are effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 is not expected to have a material impact on the Corporation’s financial position, results of operations or disclosures.

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## 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, 2014 and 2013.

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:	(in thousands)			
State and municipals	\$19,836	\$ 843	\$ -	\$20,679
Pass-through mortgage securities	856	110	-	966
Collateralized mortgage obligations	1,141	84	-	1,225
	\$21,833	\$ 1,037	\$ -	\$22,870
Available-for-Sale Securities:				
State and municipals	\$393,637	\$ 18,612	\$ (452 )	\$411,797
Pass-through mortgage securities	130,966	1,421	(1,206 )	131,181
Collateralized mortgage obligations	226,879	4,847	(559 )	231,167
	\$751,482	\$ 24,880	\$ (2,217 )	\$774,145
	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:	(in thousands)			
State and municipals	\$27,968	\$ 1,087	\$ -	\$29,055
Pass-through mortgage securities	1,878	181	-	2,059
Collateralized mortgage obligations	2,258	176	-	2,434
	\$32,104	\$ 1,444	\$ -	\$33,548
Available-for-Sale Securities:				
State and municipals	\$353,333	\$ 8,250	\$ (5,030 )	\$356,553
Pass-through mortgage securities	154,760	1,040	(3,982 )	151,818
Collateralized mortgage obligations	272,083	6,190	(1,851 )	276,422
	\$780,176	\$ 15,480	\$ (10,863 )	\$784,793

At December 31, 2014 and 2013, investment securities with a carrying value of \$369,951,000 and \$281,444,000, 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, 2014 and 2013.

**Securities With Unrealized Losses.** The following tables set forth securities with unrealized losses at December 31, 2014 and 2013 presented by length of time the securities have been in a continuous unrealized loss position.

	2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
State and municipals	\$19,386	\$ (145 )	\$21,198	\$ (307 )	\$40,584	\$ (452 )
Pass-through mortgage securities	-	-	100,556	(1,206 )	100,556	(1,206 )
Collateralized mortgage obligations	15,420	(84 )	17,227	(475 )	32,647	(559 )
Total temporarily impaired	\$34,806	\$ (229 )	\$138,981	\$ (1,988 )	\$173,787	\$ (2,217 )



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	2013		12 Months		Total	
	Less than 12 Months	Unrealized Loss	Fair Value	or More Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
State and municipals	\$103,010	\$ (4,549 )	\$7,729	\$ (481 )	\$110,739	\$ (5,030 )
Pass-through mortgage securities	89,092	(2,279 )	38,237	(1,703 )	127,329	(3,982 )
Collateralized mortgage obligations	36,652	(652 )	54,660	(1,199 )	91,312	(1,851 )
Total temporarily impaired	\$228,754	\$ (7,480 )	\$100,626	\$ (3,383 )	\$329,380	\$ (10,863 )

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, 2014.

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

	2014	2013	2012
	(in thousands)		
Proceeds	\$3,390	\$1,780	\$102,687
Gains	\$42	\$48	\$4,248
Losses	(20 )	(49 )	(635 )
Net gain (loss)	\$22	\$(1 )	\$3,613

The income tax expense (benefit) related to these net realized gains (losses) was \$9,000, \$(0) and \$1,434,000 in 2014, 2013 and 2012, respectively, and is included in the consolidated statements of income in the line item, "Income tax expense."

Sales of Held-to-Maturity Securities. During 2014, the Bank sold municipal and mortgage-backed securities that were classified as held-to-maturity securities. The sales of municipal securities were in response to a significant deterioration in the creditworthiness of the issuers. The sales of mortgage-backed securities occurred after the Bank had collected at least 85% of the principal balance outstanding at acquisition of each security. The securities sold had a carrying value of \$2,304,000 at the time of sale and the Bank realized a gain upon sale of \$119,000.

During 2013, 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 \$705,000 at the time of sale and the Bank realized a gain upon sale of \$17,000.

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, 2014 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.

	Amortized Fair	
	Cost	Value
	(in thousands)	
Held-to-Maturity Securities:		
Within one year	\$2,924	\$2,946
After 1 through 5 years	8,534	8,878
After 5 through 10 years	7,545	7,972
After 10 years	833	883
Mortgage-backed securities	1,997	2,191
	\$21,833	\$22,870

Available-for-Sale Securities:

Within one year	\$5,255	\$5,308
After 1 through 5 years	20,417	21,002
After 5 through 10 years	118,811	122,449
After 10 years	249,154	263,038
Mortgage-backed securities	357,845	362,348
	\$751,482	\$774,145

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## NOTE C – LOANS

The following tables set forth by class of loans as of December 31, 2014, 2013 and 2012 the amount of loans individually and collectively evaluated for impairment and the portion of the allowance for loan losses allocable to such loans. The tables also set forth by class of loans the activity in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012. Construction and land development loans are included with commercial mortgages in the following tables and small business credit scored loans are included with commercial and industrial loans.

	2014				Residential			Total
	Commercial Mortgages			Owner	Closed	Revolving	Consumer	
	Commercial & Industrial (in thousands)	Multifamily	Other	Occupied	End	Home Equity	and Other	
Loans:								
Individually evaluated for impairment	\$16	\$303	\$-	\$630	\$1,083	\$376	\$-	\$2,408
Collectively evaluated for impairment	77,124	528,790	222,537	106,715	778,911	82,733	5,601	1,802,411
	\$77,140	\$529,093	\$222,537	\$107,345	\$779,994	\$83,109	\$5,601	\$1,804,819
Allocation of allowance for loan losses:								
Individually evaluated for impairment	\$-	\$-	\$-	\$-	\$60	\$-	\$-	\$60
Collectively evaluated for impairment	838	7,207	2,340	1,023	10,539	1,121	93	23,161
	\$838	\$7,207	\$2,340	\$1,023	\$10,599	\$1,121	\$93	\$23,221
Activity in allowance for loan losses:								
Beginning balance	\$808	\$7,348	\$1,501	\$1,191	\$8,607	\$1,240	\$153	\$20,848
Chargeoffs	96	-	37	400	121	173	7	834
Recoveries	2	-	-	-	3	4	9	18
Provision for loan losses (credit)	124	(141)	876	232	2,110	50	(62)	3,189
Ending balance	\$838	\$7,207	\$2,340	\$1,023	\$10,599	\$1,121	\$93	\$23,221
2013								
Loans:								
Individually evaluated for impairment	\$34	\$347	\$3,037	\$657	\$1,539	\$211	\$-	\$5,825
Collectively evaluated for impairment	71,784	469,139	159,837	82,994	603,804	77,370	7,184	1,472,112
	\$71,818	\$469,486	\$162,874	\$83,651	\$605,343	\$77,581	\$7,184	\$1,477,937
Allocation of allowance for loan losses:								
Individually evaluated for impairment	\$1	\$-	\$-	\$127	\$149	\$-	\$-	\$277
	807	7,348	1,501	1,064	8,458	1,240	153	20,571

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Collectively evaluated for impairment	\$808	\$7,348	\$1,501	\$1,191	\$8,607	\$1,240	\$153	\$20,848
Activity in allowance for loan losses:								
Beginning balance	\$834	\$5,342	\$1,978	\$1,163	\$7,729	\$1,453	\$125	\$18,624
Chargeoffs	-	-	-	-	914	-	18	932
Recoveries	19	-	113	-	13	-	14	159
Provision for loan losses (credit)	(45 )	2,006	(590 )	28	1,779	(213 )	32	2,997
Ending balance	\$808	\$7,348	\$1,501	\$1,191	\$8,607	\$1,240	\$153	\$20,848
	2012							
Loans:								
Individually evaluated for impairment	\$48	\$1,105	\$1,773	\$174	\$5,028	\$382	\$-	\$8,510
Collectively evaluated for impairment	54,291	277,398	140,213	83,705	497,339	81,593	4,335	1,138,874
	\$54,339	\$278,503	\$141,986	\$83,879	\$502,367	\$81,975	\$4,335	\$1,147,384
Allocation of allowance for loan losses:								
Individually evaluated for impairment	\$-	\$-	\$-	\$-	\$567	\$-	\$-	\$567
Collectively evaluated for impairment	834	5,342	1,978	1,163	7,162	1,453	125	18,057
	\$834	\$5,342	\$1,978	\$1,163	\$7,729	\$1,453	\$125	\$18,624
Activity in allowance for loan losses:								
Beginning balance	\$699	\$5,365	\$2,316	\$1,388	\$5,228	\$1,415	\$161	\$16,572
Chargeoffs	5	501	-	-	659	450	4	1,619
Recoveries	4	4	19	-	10	-	6	43
Provision for loan losses (credit)	136	474	(357 )	(225 )	3,150	488	(38 )	3,628
Ending balance	\$834	\$5,342	\$1,978	\$1,163	\$7,729	\$1,453	\$125	\$18,624

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For individually impaired loans, the following tables set forth by class of loans at December 31, 2014, 2013 and 2012 the recorded investment, unpaid principal balance and related allowance. The tables also set forth the average recorded investment of individually impaired loans and interest income recognized while the loans were impaired during the years ended December 31, 2014, 2013 and 2012. The recorded investment is the unpaid principal balance of the loans less any interest payments applied to principal and any direct chargeoffs and, for the 2014 and 2013 tables, plus or minus net deferred loan costs and fees.

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With no related allowance recorded:					
Commercial and industrial	\$ 16	\$ 16	\$ -	\$ 25	\$ 2
Commercial mortgages:					
Multifamily	303	368	-	321	-
Owner-occupied	630	663	-	641	-
Residential mortgages:					
Closed end	216	270	-	230	-
Revolving home equity	376	372	-	376	-
With an allowance recorded:					
Residential mortgages - closed end	867	893	60	891	27
Total:					
Commercial and industrial	16	16	-	25	2
Commercial mortgages:					
Multifamily	303	368	-	321	-
Owner-occupied	630	663	-	641	-
Residential mortgages:					
Closed end	1,083	1,163	60	1,121	27
Revolving home equity	376	372	-	376	-
	\$ 2,408	\$ 2,582	\$ 60	\$ 2,484	\$ 29

	2013				
With no related allowance recorded:					
Commercial mortgages:					
Multifamily	\$ 347	\$ 400	\$ -	\$ 361	\$ -
Other	3,037	3,084	-	3,081	101
Residential mortgages:					
Closed end	580	617	-	594	6
Revolving home equity	211	213	-	211	-
With an allowance recorded:					
Commercial and industrial	34	34	1	41	2
Commercial mortgages - owner-occupied	657	666	127	661	-
Residential mortgages - closed end	959	969	149	997	22
Total:					
Commercial and industrial	34	34	1	41	2
Commercial mortgages:					



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Multifamily	347	400	-	361	-
Other	3,037	3,084	-	3,081	101
Owner-occupied	657	666	127	661	-
Residential mortgages:					
Closed end	1,539	1,586	149	1,591	28
Revolving home equity	211	213	-	211	-
	\$5,825	\$5,983	\$277	\$5,946	\$131

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	2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
With no related allowance recorded:					
Commercial and industrial	\$48	\$ 48	\$ -	\$ 49	\$ 1
Commercial mortgages:					
Multifamily	1,105	1,105	-	1,132	42
Other	1,773	1,773	-	1,793	103
Owner-occupied	174	174	-	181	-
Residential mortgages:					
Closed end	1,043	1,043	-	1,444	4
Revolving home equity	382	382	-	386	1
With an allowance recorded:					
Residential mortgages - closed end	3,985	3,985	567	4,024	131
Total:					
Commercial and industrial	48	48	-	49	1
Commercial mortgages:					
Multifamily	1,105	1,105	-	1,132	42
Other	1,773	1,773	-	1,793	103
Owner-occupied	174	174	-	181	-
Residential mortgages:					
Closed end	5,028	5,028	567	5,468	135
Revolving home equity	382	382	-	386	1
	\$8,510	\$ 8,510	\$ 567	\$ 9,009	\$ 282

Any principal and interest payments received on nonaccrual impaired loans are applied to the recorded investment in the loans. The Bank recognizes interest income on other impaired loans using the accrual method of accounting.

Aging of Loans. The following tables present the aging of the recorded investment in loans by class of loans.

December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual Loans	Total Past Due Loans & Nonaccrual Loans	Current	Total Loans
	(in thousands)						
Commercial and industrial	\$-	\$ -	\$ -	\$ -	\$ -	\$77,140	\$77,140
Commercial mortgages:							
Multifamily	954	-	-	303	1,257	527,836	529,093
Other	-	-	-	-	-	222,537	222,537
Owner-occupied	-	-	-	630	630	106,715	107,345
Residential mortgages:							
Closed end	1,059	-	-	395	1,454	778,540	779,994
Revolving home equity	74	99	-	376	549	82,560	83,109
Consumer	-	-	-	-	-	5,601	5,601
	\$2,087	\$ 99	\$ -	\$ 1,704	\$ 3,890	\$1,800,929	\$1,804,819

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	December 31, 2013								
Commercial and industrial	\$-	\$ -	\$ -	\$ -	\$ -	\$71,818	\$71,818		
Commercial mortgages:									
Multifamily	-	-	-	347	347	469,139	469,486		
Other	-	-	-	1,311	1,311	161,563	162,874		
Owner-occupied	-	-	-	657	657	82,994	83,651		
Residential mortgages:									
Closed end	67	-	-	1,070	1,137	604,206	605,343		
Revolving home equity	112	-	-	211	323	77,258	77,581		
Consumer	5	-	-	-	5	7,179	7,184		
	\$184	\$ -	\$ -	\$ 3,596	\$ 3,780	\$1,474,157	\$1,477,937		

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**Troubled Debt Restructurings.** A restructuring constitutes a troubled debt restructuring when the restructuring includes a concession by the Bank and the borrower is experiencing financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. The Bank performs the evaluation under its internal underwriting policy.

The Bank did not modify any loans in troubled debt restructurings during 2014. The following table presents information about loans modified in troubled debt restructurings during the years ended December 31, 2013 and 2012:

	Number of Loans	Outstanding Recorded Investment		Interest Rates	
		Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
2013:		(in thousands)		5.00%	
Commercial mortgages - owner-occupied	2	\$ 658	\$ 658	and 5.75%	2.50%
				3.25%	
				and	
Residential mortgages - closed end	2	259	259	6.50%	3.75%
	4	\$ 917	\$ 917		
2012:					
Commercial and industrial	1	\$ 49	\$ 49	4.75%	5.75%
Residential mortgages - closed end	1	129	129	6.00%	2.00%
	2	\$ 178	\$ 178		

The post-modification interest rates in the table above were lower than the current market rate for new debt with similar risk. The 2012 restructurings included a maturity extension and the conversion of a revolving line to a term loan. The 2013 restructured loans resulted in a provision for loan losses of \$164,000 during 2013 while the 2012 restructured loans did not result in a provision for loan losses during 2012. There were no chargeoffs related to these loans at the time of restructure in either 2013 or 2012.

At December 31, 2014, 2013 and 2012, the Bank had an allowance for loan losses of \$60,000, \$208,000 and \$481,000, respectively, allocated to specific troubled debt restructurings. The Bank had no commitments to lend additional amounts to loans that were classified as troubled debt restructurings.

There were two troubled debt restructurings for which there were payment defaults during 2014 that were modified during the twelve-month period prior to default. The restructured loans were owner-occupied commercial mortgage loans with an aggregate outstanding recorded investment of \$630,000 at December 31, 2014 and no specifically allocated allowance for loan losses. There were no troubled debt restructurings for which there was a payment default during 2013 or 2012 that were modified during the twelve-month period prior to default. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

**Loan Held-for-Sale.** The December 31, 2013 consolidated balance sheet includes a loan held-for-sale at its estimated fair value of \$900,000. The Bank recorded a chargeoff of \$872,000 against the allowance for loan losses at the time the loan was transferred to held-for-sale. This loan was sold in January 2014 for its carrying value.

**Risk Characteristics.** Credit risk within the Bank's loan portfolio primarily stems from factors such as borrower size, geographic concentration, industry concentration, real estate values, local and national economic conditions and environmental impairment of properties securing mortgage loans. 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. 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 are dependent on the strength of the local economy.

**Credit Quality Indicators.** The Corporation categorizes loans into risk categories based on relevant information about the borrower's ability to service their debt including, but not limited to, current financial information for the borrower and any guarantors, payment experience, credit underwriting documentation, public records and current economic trends.

Commercial and industrial loans, including small business credit scored loans, and commercial mortgage loans, including construction and land development loans, are risk rated utilizing a ten point rating system. Residential mortgages, home equity lines and other consumer loans are risk rated utilizing a three point rating system. The ten and three point risk rating systems are described hereinafter.

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Internally

Assigned

Risk

Rating

1 – 2	Cash flow is of high quality and stable. Borrower has very good liquidity and ready access to traditional sources of credit. This category also includes loans to borrowers secured by cash and/or marketable securities within approved margin requirements.
3 – 4	Cash flow quality is strong, but shows some variability. Borrower has good liquidity and asset quality. Borrower has access to traditional sources of credit with minimal restrictions.
5 – 6	Cash flow quality is acceptable but shows some variability. Liquidity varies with operating cycle and assets provide an adequate margin of protection. Borrower has access to traditional sources of credit, but generally on a secured basis.
7	Watch - Cash flow has a high degree of variability and subject to economic downturns. Liquidity is strained and the ability of the borrower to access traditional sources of credit is diminished.
8	Special Mention - The borrower has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to risk sufficient to warrant adverse classification.
9	Substandard - Loans are inadequately protected by the current sound worth and paying capacity of the borrower or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
10	Doubtful - Loans have all the inherent weaknesses of those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk ratings on commercial and industrial loans and commercial mortgages are initially assigned by the lending officer together with any necessary approval authority. The ratings are periodically reviewed and evaluated based upon borrower contact, credit department review or independent loan review.

The Bank's loan risk rating and review policy establishes requirements for the annual review of commercial real estate and commercial and industrial loans. The requirements include details of the scope of coverage and selection process based on loan-type and risk rating. Among other requirements, at least 60% of the principal balance of commercial real estate loans as of December 31 of the prior year must be reviewed annually. The frequency of the review of other loans is determined by the Bank's ongoing assessments of the borrower's condition.

Residential mortgage loans, revolving home equity lines and other consumer loans are risk rated utilizing a three point rating system. In most cases, the borrower's credit score dictates the risk rating. However, regardless of credit score, loans that are on management's watch list or have been criticized or classified by management are assigned a risk rating of 3. A credit score is a tool used in the Bank's loan approval process, and a minimum score of 680 is generally required for new loans. Credit scores for each borrower are updated at least annually. The risk ratings along with their definitions are as follows:

Internally

Assigned

Risk Rating

1	Credit score is equal to or greater than 680.
2	Credit score is 635 to 679.
3	Credit score is below 635 or, regardless of credit score, the loan has been classified, criticized or placed on watch.

The following tables present the recorded investment in commercial and industrial loans and commercial real estate loans by class of loans and risk rating at December 31, 2014 and 2013. Loans shown as Pass are all loans other than those risk rated Watch, Special Mention, Substandard or Doubtful.

	December 31, 2014					Total
	Internally Assigned Risk Rating					
	Pass	Watch	Special Mention	Substandard	Doubtful	
	(in thousands)					
Commercial and industrial	\$76,884	\$65	\$ -	\$ 191	\$ -	\$77,140
Commercial mortgages:						
Multifamily	519,274	7,610	1,906	303	-	529,093
Other	219,997	900	-	1,640	-	222,537
Owner-occupied	106,443	-	-	902	-	107,345
	\$922,598	\$8,575	\$ 1,906	\$ 3,036	\$ -	\$936,115
	December 31, 2013					
Commercial and industrial	\$70,349	\$280	\$ 1,155	\$ 34	\$ -	\$71,818
Commercial mortgages:						
Multifamily	459,670	9,470	-	346	-	469,486
Other	159,236	601	-	3,037	-	162,874
Owner-occupied	75,681	4,161	837	2,972	-	83,651
	\$764,936	\$14,512	\$ 1,992	\$ 6,389	\$ -	\$787,829

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The following tables present the recorded investment in residential mortgage loans, home equity lines and other consumer loans by class of loans and risk rating at December 31, 2014 and 2013. Loans shown as Pass are all loans other than those risk rated Watch, Special Mention, Substandard or Doubtful.

December 31, 2014						
Internally Assigned Risk Rating						
Pass	Watch	Special Mention	Substandard	Doubtful	Total	
(in thousands)						
Residential mortgages:						
Closed end	\$777,846	\$1,066	\$ -	\$ 1,082	\$ -	\$779,994
Revolving home equity	82,730	99	-	280	-	83,109
Consumer	5,122	-	-	-	-	5,122
	\$865,698	\$1,165	\$ -	\$ 1,362	\$ -	\$868,225

## December 31, 2013

Residential mortgages:						
Closed end	\$602,025	\$1,779	\$-	\$1,539	\$-	\$605,343
Revolving home equity	77,018	352	-	211	-	77,581
Consumer	5,802	-	-	-	-	5,802
	\$684,845	\$2,131	\$-	\$1,750	\$-	\$688,726

Deposit account overdrafts were \$479,000 and \$1,382,000 at December 31, 2014 and 2013, respectively. They are not assigned a risk-rating and are therefore excluded from consumer loans in the above tables.

Loans to Directors and Executive Officers. Certain directors, including their immediate families and companies in which they are principal owners, and executive officers were loan customers of the Bank during 2014 and 2013. The aggregate outstanding amount of these loans was \$668,000 and \$778,000 at December 31, 2014 and 2013, respectively. During 2014, \$93,000 of new loans were made to such persons representing advances on existing lines. Repayments totaled \$203,000 in 2014. There were no loans to directors or executive officers that were nonaccrual at December 31, 2014 or 2013.

## NOTE D – PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	December 31,	
	2014	2013
	(in thousands)	
Land	\$5,985	\$6,000
Buildings and improvements	19,462	17,360
Leasehold improvements	8,782	7,587
Furniture and equipment	24,797	23,155
Construction in process	1,570	262
	60,596	54,364
Accumulated depreciation and amortization	(32,742)	(29,901)
	\$27,854	\$24,463

## NOTE E – DEPOSITS

The following table sets forth the remaining maturities of the Bank's time deposits.

Amount	Total
Less than \$100,000	or More
(in thousands)	



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2015	\$35,055	\$74,767	\$109,822
2016	23,490	36,434	59,924
2017	3,323	4,705	8,028
2018	12,079	27,213	39,292
2019	35,745	53,864	89,609
Thereafter	10,510	11,762	22,272
	\$120,202	\$208,745	\$328,947

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The total amount of time deposits that meet or exceed the FDIC Insurance limit of \$250,000 or more at December 31, 2014 and 2013 was \$80.5 million and \$79.1 million, respectively. Deposits from executive officers, directors and their affiliates at December 31, 2014 and 2013 were approximately \$9.8 million and \$11.6 million, respectively.

**NOTE F – BORROWED FUNDS**

The following table summarizes borrowed funds at December 31, 2014 and 2013.

	December 31,	
	2014	2013
	(in thousands)	
Short-term borrowings:		
Securities sold under repurchase agreements	\$ 11,486	\$ 10,463
Federal Home Loan Bank advances	125,000	100,000
	136,486	110,463
Long-term debt:		
Securities sold under repurchase agreements	45,000	45,000
Federal Home Loan Bank advances	300,000	240,000
	345,000	285,000
	\$481,486	\$395,463

Accrued interest payable on borrowed funds is included in “accrued expenses and other liabilities” in the Consolidated Balance Sheets, and amounted to \$668,000 and \$572,000 at December 31, 2014 and 2013, respectively.

**Securities Sold Under Repurchase Agreements.** Securities sold under repurchase agreements are fixed rate financing arrangements with remaining contractual maturities between one day and four years. At maturity, the securities underlying the agreements will be returned to the Bank.

The following table sets forth information concerning securities sold under repurchase agreements.

	2014	2013
	(dollars in thousands)	
Average daily balance during the year	\$57,511	\$61,120
Average interest rate during the year	3.53 %	3.33 %
Maximum month-end balance during the year	\$61,152	\$66,847
Weighted average interest rate at year-end	3.54 %	3.61 %

The agreements are collateralized by mortgage-backed and municipal securities with a carrying value of approximately \$57 million at December 31, 2014.

The following table sets forth as of December 31, 2014 the contractual maturities and weighted average interest rates of securities sold under repurchase agreements for each of the next five years. There are no securities sold under repurchase agreements with contractual maturities after 2018. All of the repurchase agreements maturing in 2015 and thereafter are callable as of December 31, 2014.

Contractual Maturity (dollars in thousands)	Amount	Weighted Average Rate	
Overnight	\$ 11,486	0.10	%
2015	10,000	4.20	
2017	30,000	4.33	
2018	5,000	5.45	
	45,000	4.42	
	\$56,486	3.54	%

Federal Home Loan Bank Advances. FHLB advances were collateralized by a blanket lien on residential and commercial mortgages with a lendable value of \$1,131 million at December 31, 2014 and residential mortgages with a lendable value of \$440 million at December 31, 2013. Each advance is non-amortizing and, for those advances with a term greater than one day, subject to a prepayment penalty.

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The following table sets forth information concerning FHLB advances.

	2014	2013	
	(dollars in thousands)		
Average daily balance during the year	\$290,409	\$211,595	
Average interest rate during the year	1.68 %	1.41 %	
Maximum month-end balance during the year	\$425,000	\$340,000	
Weighted average interest rate at year-end	1.42 %	1.44%	

The following table sets forth as of December 31, 2014 the contractual maturities and weighted average interest rates of FHLB advances for each of the next five years and the period thereafter.

Contractual Maturity (dollars in thousands)	Amount	Weighted Average Rate	
Overnight	\$125,000	.32	%
2015	10,000	2.67	
2016	27,500	2.33	
2017	27,050	1.51	
2018	122,450	1.75	
2019	73,500	1.91	
After 2019	39,500	2.00	
	300,000	1.88	
	\$425,000	1.42	%

**Other Borrowings.** The Bank had no other borrowings at December 31, 2014 or 2013. In 2014 and 2013, the average balance of other borrowings amounted to \$26,000 and \$22,000, respectively, with average interest rates of .42% and .62%, respectively. The funds were borrowed to test the Bank's credit lines at the FRB discount window and at several commercial banks.

**NOTE G – INCOME TAXES**

The Corporation, the Bank and the Bank's subsidiaries, except for the REIT, file a consolidated federal income tax return. Income taxes charged to earnings in 2014, 2013 and 2012 had effective tax rates of 20.9%, 21.2% and 19.7%, respectively. The following table sets forth a reconciliation of the statutory Federal income tax rate to the Corporation's effective tax rate.

	Year Ended December 31,		
	2014	2013	2012
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
State and local income taxes, net of federal income tax benefit	2.5	3.4	3.1
Tax-exempt income, net of disallowed cost of funding	(16.0)	(16.5)	(17.5)
Other	.4	.3	.1
	20.9 %	21.2 %	19.7 %

**Provision for Income Taxes.** The following table sets forth the components of the provision for income taxes.

	Year Ended December 31,		
	2014	2013	2012
Current:	(in thousands)		
Federal	\$4,943	\$5,046	\$1,575
State and local	1,746	1,490	607

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	6,689	6,536	2,182
Deferred:			
Federal	61	(692 )	2,262
State and local	(655 )	(109 )	573
	(594 )	(801 )	2,835
	\$6,095	\$5,735	\$5,017

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Net Deferred Tax Liability. The following table sets forth the components of the Bank's net deferred tax liability.

	December 31,	
	2014	2013
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses and off-balance-sheet credit exposure	\$9,005	\$8,169
Interest on nonperforming loans	101	72
Accrued legal settlement	39	40
Stock-based compensation	1,187	974
Supplemental executive retirement expense	20	6
Directors' retirement expense	67	70
Accrued rent expense	186	147
Depreciation	125	-
	10,730	9,478
Valuation allowance	-	-
	10,730	9,478
Deferred tax liabilities:		
Prepaid pension	6,321	7,240
Unrealized gains on available-for-sale securities	8,882	1,833
Deferred loan costs	3,746	2,651
Prepaid expenses	80	102
Depreciation	-	206
Other	134	50
	19,163	12,082
Net deferred tax liability	\$(8,433 )	\$(2,604 )

The Corporation had no unrecognized tax benefits at December 31, 2014, 2013 and 2012, and has not taken any tax positions for which it is reasonably possible that unrecognized tax benefits will significantly increase within the next twelve months.

The Corporation is subject to U.S. federal, New York State and New York City income taxes. The Corporation's federal, New York State and New York City income tax returns are subject to examination by the taxing authorities for years after 2010. In 2012, New York State completed an examination of the Corporation's and FNY's tax returns for calendar years 2007, 2008 and 2009 and proposed no changes to the returns. In 2011, New York City completed an examination of the Corporation's tax returns for calendar years 2007 and 2008 and proposed no changes to the returns. The Corporation did not incur any amounts for interest and penalties due taxing authorities for calendar years 2012, 2013 or 2014.

Effective January 1, 2015, the New York State banking corporation franchise tax under Article 32 was repealed and banks are now subject to the general business corporation franchise tax under a substantially revised Article 9A.

**NOTE H – REGULATORY MATTERS**

**Minimum Regulatory Capital Requirements.** The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet 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. Under the banking agencies' capital adequacy guidelines and the regulatory framework for prompt corrective action in effect at December 31, 2014, the Corporation and the Bank must satisfy specific capital requirements that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and Tier 1 capital to average

assets. Tier 1 capital, risk weighted assets and average assets are as defined by regulation. The required minimums for the Corporation and Bank as of December 31, 2014 are set forth in the table that follows.

As of December 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage capital ratios as set forth in the table that follows. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios at December 31, 2014 and 2013 are also presented in the table.

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2014						
	Actual Capital		Minimum Capital Adequacy Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	(dollars in thousands)					
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk Weighted Assets:						
Consolidated	\$241,860	15.49%	\$124,894	8.00%	N/A	N/A
Bank	241,655	15.48	124,863	8.00	\$156,079	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	222,298	14.24	62,447	4.00	N/A	N/A
Bank	222,098	14.23	62,431	4.00	93,647	6.00
Tier 1 Capital to Average Assets:						
Consolidated	222,298	8.49	104,673	4.00	N/A	N/A
Bank	222,098	8.49	104,670	4.00	130,838	5.00
2013						
Total Capital to Risk Weighted Assets:						
Consolidated	\$220,957	17.02%	\$103,835	8.00%	N/A	N/A
Bank	220,200	16.97	103,794	8.00	\$129,742	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	204,674	15.77	51,917	4.00	N/A	N/A
Bank	203,923	15.72	51,897	4.00	77,845	6.00
Tier 1 Capital to Average Assets:						
Consolidated	204,674	8.62	95,011	4.00	N/A	N/A
Bank	203,923	8.59	94,977	4.00	118,721	5.00

On January 1, 2015, the Corporation and the Bank implemented the federal bank regulatory agencies' final rule relating to the Basel III capital adequacy standards.

**Other Matters.** The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid by the Bank without prior approval of regulatory agencies. Under these regulations, the amount of dividends that the Bank may pay in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the minimum capital requirements described above. During 2015, the Bank could, without prior approval, declare dividends of approximately \$36,178,000 plus any 2015 net profits retained to the date of the dividend declaration. Regulation D of the Board of Governors of The Federal Reserve System requires banks to maintain reserves against certain deposit balances. The Bank's average reserve requirement for 2014 was approximately \$16,343,000. Under national banking laws and related statutes, the Bank is limited as to the amount it may loan to the Corporation, unless such loans are collateralized by specified obligations. At December 31, 2014, the maximum amount available for transfer from the Bank to the Corporation in the form of loans approximated \$35,907,000.

**NOTE I – SHAREHOLDER PROTECTION RIGHTS PLAN**

On July 18, 2006, the Board of Directors of the Corporation ("Board") renewed the Corporation's Shareholder Protection Rights Plan and declared a distribution of one right ("Right") for each share of the Corporation's common stock ("Common Stock") outstanding on August 1, 2006.

In the absence of an event of the type described below, the Rights will be evidenced by and trade with the Common Stock and will not be exercisable. However, the Rights will separate from the Common Stock and become exercisable following the earlier of (1) the tenth business day, or such later date as the Board may decide, after any



person or persons (collectively referred to as “person”) commences a tender offer that would result in such person holding a total of 20% or more of the outstanding Common Stock, or (2) ten business days after, or such earlier or later date as the Board may decide, the announcement by the Corporation that any person has acquired 20% or more of the outstanding Common Stock.

When separated from the Common Stock, each Right will entitle the holder to purchase one share of Common Stock for \$50 (“Exercise Price”). However, in the event that the Corporation has announced that any person has acquired 20% or more of the outstanding Common Stock, the Rights owned by that person will be automatically void and each other Right will automatically become a right to buy, for the Exercise Price, that number of shares of Common Stock having a market value of twice the Exercise Price. Also, if any person acquires 20% or more of the outstanding Common Stock, the Board can require that, in lieu of exercise, each outstanding Right be exchanged for one share of Common Stock.

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The Rights may be redeemed by action of the Board at a price of \$.01 per Right at any time prior to announcement by the Corporation that any person has acquired 20% or more of the outstanding Common Stock. The Exercise Price and the number of Rights outstanding are subject to adjustment to prevent dilution. The Rights expire ten years from the date of their issuance.

### NOTE J – STOCK-BASED COMPENSATION

On April 22, 2014, the stockholders of the Corporation approved the 2014 Equity Incentive Plan (“2014 Plan”). No further awards can be made under the 2006 Stock Compensation Plan (“2006 Plan”).

Under the 2014 Plan, awards may be granted to employees and non-employee directors as incentive stock options (“ISOs”) and non-qualified stock options (“NQSOs”), stock appreciation rights (“SARs”), restricted stock awards, RSUs, or any combination thereof, any of which may be subject to performance-based vesting conditions. The exercise price of ISOs and NQSOs granted under the 2014 Plan may not be less than the fair market value of the Corporation’s common stock on the date the stock option is granted. 1,500,000 shares of the Corporation’s common stock are reserved for awards under the 2014 Plan. All of the 1,500,000 shares may be issued pursuant to the exercise of stock options or SARs. A maximum of 525,000 shares may be issued as restricted stock awards or RSUs. Awards granted under the 2006 Plan that expire or are forfeited after April 22, 2014 will be added to the number of shares of common stock reserved for issuance of awards under the 2014 Plan. At December 31, 2014, 1,494,196 shares of common stock remain available for issuance of awards under the 2014 Plan of which 511,177 shares remain available for issuance as restricted stock awards or RSUs. The 2014 Plan is administered by the Compensation Committee of the Board of Directors.

The 2006 Plan was approved by the stockholders of the Corporation on April 18, 2006 as a successor to the 1996 Stock Option and Appreciation Rights Plan (“1996 Plan”). The 2006 Plan permitted the granting of stock options, SARs, restricted stock awards and RSUs to employees and non-employee directors. Under the terms of the 2006 Plan, stock options and SARs could not have an exercise price that was less than 100% of the fair market value of one share of the underlying common stock on the date of grant. The Board of Directors used a five year vesting period and a ten year term for stock options granted under the 2006 Plan.

For RSUs awarded through 2013, the Board of Directors made the ability to convert RSUs into shares of common stock and the related conversion ratio contingent upon the financial performance of the Corporation in the third year of the three calendar year period beginning in the year in which the RSUs were awarded (“performance-based RSUs”). RSUs awarded under the 2006 Plan in 2014 included both performance-based RSUs and RSUs with a two to three year service-based vesting period.

Through December 31, 2011, equity grants to executive officers and directors under the 2006 Plan consisted of a combination of NQSOs and RSUs, while equity grants to other officers consisted solely of NQSOs. Beginning with the January 2012 grant, equity compensation for all officers and directors consisted solely of RSUs.

All awards made to date under the 2014 and 2006 Plans immediately vest in the event of a change in control, retirement, total and permanent disability, as defined, or death.

The 1996 Plan permitted the granting of stock options, with or without stock appreciation rights attached, and stand alone stock appreciation rights, to employees and non-employee directors. Options granted under the 1996 Plan were granted at a price equal to the fair market value of one share of the Corporation’s stock on the date of grant. Options granted on or before December 31, 2000 became exercisable in whole or in part commencing six months from the date of grant and ending ten years after the date of grant. Options granted under the 1996 Plan in January 2005 became exercisable in whole or in part commencing ninety days from the date of grant and ending ten years after the date of grant. By the terms of their grant, all other options under the 1996 Plan were granted with a three-year vesting period and a ten-year expiration date. However, vesting was subject to acceleration in the event of a change in control, retirement, death, disability, and certain other limited circumstances.

In January and February 2014, the Board of Directors awarded 50,136 RSUs. These RSUs were granted under the 2006 Plan and included 38,129 performance-based RSUs with vesting based on the financial performance of the Corporation in 2016 and 12,007 RSUs that have a two to three year service-based vesting period. In the fourth quarter of 2014, the Board of Directors awarded 13,823 RSUs under the 2014 Plan with immediate vesting. In January 2015, the Board of Directors awarded 70,885 performance-based RSUs under the 2014 Plan with vesting based on the financial performance of the Corporation in 2017.

Fair Value of Stock Option Awards. The grant date fair value of option awards was estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility was based on historical volatility for the expected term of the options. The Corporation used historical data to estimate the expected term of options granted. The risk-free interest rate was the implied yield at the time of grant on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options. There were no stock options granted by the Board of Directors during 2014, 2013 or 2012.

Fair Value of Restricted Stock Units. The grant date fair value of restricted stock units is based on the market price of the shares underlying the awards on the grant date, discounted for dividends which are not paid on restricted stock units. The fair values of awards made in 2014, 2013 and 2012, as well as the assumptions utilized in determining such values, is presented below.

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	2014			2013	2012
	Performance- Based Vesting	Service- Based Vesting	Immediate Vesting	Performance- Based Vesting	
Grant date fair value	\$25.99	\$25.99 to \$26.68	\$ 25.90	\$17.79	\$16.15
Market price on date of grant	\$28.07	\$28.07	\$ 25.90	\$19.78	\$17.99
Expected annual dividend	\$0.69	\$0.69	-	\$0.67	\$0.61
Expected term (in years)	3.0	2.0 to 3.0	-	3.0	3.0
Risk-free interest rate	.13 %	.13 %	% -	.12 %	.12 %

**Compensation Expense.** 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.

Compensation expense for performance-based RSUs is recognized over a three-year performance period and adjusted periodically to reflect the estimated number of shares of the Corporation's common stock into which the RSUs will ultimately be convertible. However, if the period between the grant date and the grantee's eligible retirement date is less than three years, compensation expense is recognized ratably over this shorter period without regard to performance. Compensation expense for service-based RSUs is recognized over the applicable service-based vesting period. For the RSUs granted during 2014 with immediate vesting, compensation expense was recognized in full on the grant date based on the fair market value of the Corporation's common stock. The Corporation recorded compensation expense for share-based payments of \$1,511,000, \$592,000 and \$782,000 in 2014, 2013 and 2012, respectively, and related income tax benefits of \$614,000, \$235,000 and \$311,000, respectively.

**Stock Option Activity.** The following table presents a summary of options outstanding under the Corporation's stock-based compensation plans as of December 31, 2014 and changes during the year then ended.

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	348,801	\$ 15.64		
Exercised	(69,312 )	15.22		
Forfeited or expired	(564 )	18.57		
Outstanding at December 31, 2014	278,925	\$ 15.74	3.86	\$ 3,522
Exercisable at December 31, 2014	239,619	\$ 15.29	3.55	\$ 3,135

All options outstanding at December 31, 2014 are either fully vested or expected to vest. The total intrinsic value of options exercised in 2014, 2013 and 2012 was \$723,000, \$699,000 and \$1,017,000, respectively.

**Restricted Stock Unit Activity.** The following table presents a summary of RSUs outstanding under the Corporation's stock-based compensation plans as of December 31, 2014 and changes during the year then ended.

	Number of RSUs	Weighted- Average Grant-Date Fair Value	Weighted- Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	96,915	\$ 17.03		
Granted	63,959	26.06		
Converted	(26,237 )	21.97		
Forfeited	(7,456 )	16.85		
Outstanding at December 31, 2014	127,181	\$ 20.56	1.00	\$ 3,608
Vested and Convertible at December 31, 2014	37,006	\$ 16.15	-	\$ 1,050

The number of RSUs in the table represents the maximum number of shares of common stock of the Corporation into which the RSUs can be converted. RSUs granted and converted during 2014 include 13,823 RSUs awarded during the fourth quarter with immediate vesting. RSUs outstanding at December 31, 2014 include 37,006 RSUs that were vested and convertible into common stock at year-end and 90,175 RSUs that are currently expected to vest and become convertible in the future. The total intrinsic value of RSUs converted in 2014, 2013 and 2012 was \$706,000, \$325,000 and \$440,000, respectively.

Unrecognized Compensation Cost. As of December 31, 2014, there was \$1,032,000 of total unrecognized compensation cost related to non-vested equity awards comprised of \$84,000 for options and \$948,000 for RSUs. The total cost is expected to be recognized over a weighted-average period of 1.50 years which is based on weighted average periods of 1.06 years and 1.63 years for options and RSUs, respectively.

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Cash Received and Tax Benefits Realized. Cash received from option exercises in 2014, 2013 and 2012, was \$1,055,000, \$1,418,000 and \$2,603,000, respectively. The actual tax benefit realized for the tax deductions from option exercises in 2014, 2013 and 2012, was \$232,000, \$205,000 and \$261,000, respectively.

Other. No cash was used to settle stock options in 2014, 2013 or 2012. The Corporation uses newly issued shares to settle stock option exercises and for the conversion of RSUs.

**NOTE K – RETIREMENT PLANS**

The Bank has a 401(k) plan, defined benefit pension plan and supplemental executive retirement plan. Employees are immediately eligible to participate in the 401(k) plan provided they are at least 18 years of age. Participants may elect to contribute, on a tax-deferred basis, up to 100% of gross compensation, as defined, subject to the limitations of Section 401(k) of the Internal Revenue Code. The Bank may, at its sole discretion, make matching contributions to each participant's account based on the amount of the participant's tax deferred contributions. Participants are fully vested in their elective contributions and, after five years of participation in the 401(k) plan, are fully vested (20% vesting per year) in the matching contributions, if any, made by the Bank. Matching contributions were approximately \$357,000 for 2014, \$350,000 for 2013 and \$332,000 for 2012.

The Bank has a defined benefit pension plan (“Pension Plan” or “Plan”). Through December 20, 2013, the provisions of the Plan were governed by the rules and regulations contained in the Prototype Plan of the New York State Bankers’ Retirement System (“Retirement System”) and the Retirement System Adoption Agreement executed by the Bank. On December 20, 2013, the Bank withdrew from the New York State Bankers’ Retirement System and simultaneously formed an internal management committee (the “Committee”) to oversee the affairs of the Plan and act as named fiduciary. The Committee retained Vanguard Group, Inc., including its subsidiaries and affiliates (“Vanguard”), to act as discretionary investment agent, trustee and custodian for the Plan. Vanguard formulated investment recommendations customized to meet the Committee’s objectives and, after approval by the Committee, such investment recommendations were incorporated into the investment guidelines and policies contained in the investment management agreement between the Bank and Vanguard (the “Agreement”). Subsequently, the Committee adopted a formal Investment Policy Statement which includes, among other things, the investment guidelines and policies contained in the Agreement.

Employees are eligible to participate in the Pension Plan after attaining 21 years of age and completing 12 full months of service. Pension benefits are generally based on a percentage of average annual compensation during the period of creditable service. The Bank periodically makes contributions to the Pension Plan which, when taken together with participant contributions equal to 2% of their compensation, will be sufficient to fund these benefits. The Bank’s funding method, the unit credit actuarial cost method, is consistent with the funding requirements of applicable federal laws and regulations which set forth both minimum required and maximum tax deductible contributions. Employees become fully vested after four years of participation in the Pension Plan (no vesting occurs during the four-year period).

Significant Actuarial Assumptions. The following table sets forth the significant actuarial assumptions used to determine the benefit obligation at December 31, 2014, 2013 and 2012 and the benefit cost for each of the Plan years then ended. In calculating the benefit obligation at December 31, 2014, the mortality table was changed from the RP-2000 Annuitant/Non-Annuitant Mortality Table with Projection Scale AA to the RP-2014 Healthy Annuitant/Employee Mortality Table with Projection Scale MP-2014. The updated mortality table, which increased the projected benefit obligation at December 31, 2014 by approximately \$1.7 million, was released by the Society of Actuaries in 2014 based on a comprehensive review of recent mortality experience of uninsured private retirement plans in the United States.

Weighted average assumptions used to determine the benefit obligation at year end	2014	2013	2012
Discount rate	4.02%	5.07 %	4.06%
Rate of increase in compensation levels	3.50 %	3.50%	3.00%
Weighted average assumptions used to determine net pension cost			
Discount rate	5.07%	4.06%	5.23%
Rate of increase in compensation levels	3.50%	3.50%	3.00%
Expected long-term rate of return on plan assets	6.50%	6.50%	7.00%

Net Pension Cost. The following table sets forth the components of net periodic pension cost.

	2014	2013	2012
	(in thousands)		
Service cost including expected expenses and net of expected plan participant contributions	\$1,115	\$1,211	\$900
Interest cost	1,407	1,216	1,368
Expected return on plan assets	(3,009)	(2,656)	(2,259)
Amortization of prior service cost	16	23	23
Amortization of net actuarial loss	-	631	664
Net pension cost (credit)	\$(471)	\$425	\$696

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Prior service cost has been fully amortized from accumulated other comprehensive income into net periodic pension cost as of December 31, 2014. No portion of the net actuarial loss for the defined benefit pension plan as of December 31, 2014 will be amortized from accumulated other comprehensive income into net periodic pension cost in 2015. Funded Status of the Plan. The following table sets forth the change in the projected benefit obligation and Plan assets for each year and, as of the end of each year, the funded status of the Plan and accumulated benefit obligation.

	2014	2013	2012
Change in projected benefit obligation:	(in thousands)		
Projected benefit obligation at beginning of year	\$28,650	\$30,698	\$26,891
Service cost excluding expected expenses and plan participant contributions	1,051	1,211	889
Interest cost	1,407	1,216	1,367
Benefits paid	(1,160 )	(1,019 )	(916 )
Assumption changes	6,302	(3,907 )	4,270
Experience loss (gain) and other	(463 )	451	(1,803 )
Projected benefit obligation at end of year	35,787	28,650	30,698
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year	47,182	41,598	33,023
Actual return on plan assets	6,009	6,660	3,459
Employer contributions	-	-	6,024
Plan participant contributions	251	245	243
Benefits paid	(1,160 )	(1,019 )	(916 )
Expenses	(74 )	(302 )	(235 )
Fair value of plan assets at end of year	52,208	47,182	41,598
Funded status at end of year	\$16,421	\$18,532	\$10,900
Accumulated Benefit Obligation	\$33,403	\$26,261	\$27,783

The Bank has no minimum required pension contribution for the Plan year ending September 30, 2015 and it cannot make a tax-deductible contribution for the tax year beginning January 1, 2015.

The net actuarial loss and prior service cost included in accumulated other comprehensive income as of December 31 are as follows:

	2014	2013
	(in thousands)	
Net actuarial loss	\$4,442	\$1,844
Prior service cost	-	17
	\$4,442	\$1,861

Plan Assets. The objective for the Plan's assets is to generate long-term investment returns from both income and capital appreciation which outpaces the rate of inflation, while maintaining sufficient liquidity to ensure the Plan's ability to pay all anticipated benefit and expense obligations when due. The Plan will maintain a de minimis amount of cash equivalents, with the remaining assets allocated across two broadly-defined financial asset categories: (1) equity, both domestic and international; and (2) fixed income of various durations and issuer type. The goal of the equity allocation is to supplement the Bank's contributions to the Plan when the Plan is underfunded and increase surplus when the Plan is overfunded. The fixed income component will include longer-duration bonds designed to match and hedge the characteristics of the Plan's liabilities. Cash equivalents, under normal circumstances, will be temporary holdings for the purpose of paying expenses and monthly benefits.

For fixed income investments: (1) the minimum average credit quality shall be investment grade (Standard & Poor's BBB or Moody's Baa) or higher; and (2) no more than 5% of the portfolio may be invested in securities with ratings



below investment grade, and none may be rated below investment grade at the time of purchase.

Reasonable precautions are taken to avoid excessive concentrations to protect the portfolio against unfavorable outcomes within an asset class. Specifically the following guidelines are in place:

With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Plan assets; and

With the exception of passively managed investment vehicles seeking to match the returns of broadly diversified market indices or diversified investment vehicles chosen specifically to hedge the interest rate risk embedded in Plan liabilities, no single investment pool or investment company (mutual fund) shall comprise more than 10% of total plan assets.

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The portfolio will be rebalanced to the target asset allocation, if needed, no less often than quarterly. Unless expressly authorized in writing by the Committee, the following investing activities are prohibited:

- Purchasing securities on margin;
- Pledging or hypothecating securities, except for loans of securities that are fully collateralized;
- Purchasing or selling derivative securities for speculation or leverage; and
- Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of the portfolio.

The Plan's actual asset allocations, target allocations and expected long-term rates of return by asset category at December 31, 2014 and 2013 are set forth in the tables that follow.

## December 31, 2014

	Target Allocation	Percentage of Plan Assets	Weighted Average Expected Long-term Rates of Return
Cash equivalents	0% - 1%	.2%	<1.00%
Equity mutual funds	25% - 35%	29.7%	6.60% to 12.00%
Fixed income mutual funds	65% - 75%	70.1%	3.90% to 5.00%
		100.0%	4.70% to 7.10%

## December 31, 2013

	Target Allocation	Percentage of Plan Assets	Weighted Average Expected Long-term Rates of Return
Cash equivalents	0% - 1%	0.6%	<1.00%
Equity mutual funds	45% - 55%	50.5%	6.25% to 11.50%
Fixed income mutual funds	45% - 55%	48.9%	3.35% to 5.40%
		100.0%	4.75% to 8.50%

The ranges for the weighted average expected long-term rates of return for equity funds, bond funds and total plan assets set forth in the preceding tables represent expected 25<sup>th</sup> to 75<sup>th</sup> percentile returns provided by Vanguard. For these purposes Vanguard utilizes a proprietary capital markets model (the "model") developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. The theoretical and empirical foundation of the model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk. At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available historical monthly financial and economic data.

At December 31, 2014 and 2013, the equity and fixed income components of Plan assets consist of the following Vanguard institutional funds:

## Equity

Vanguard Total Stock Market Index Fund (VITSX). This fund seeks to track the performance of the Center for Research in Security Prices ("CRSP") U.S. Total Market Index. The fund is passively managed using index sampling and consists of large, small and mid-cap equity securities diversified across growth and value styles.

Vanguard Total International Stock Index Fund (VTSNX). This fund seeks to track the performance of the Financial Times Stock Exchange ("FTSE") Global All Cap ex U.S. Index. The fund is passively managed and includes broad exposure across developed and emerging non-U.S. equity markets.

## Fixed Income

Vanguard Long-Term Investment-Grade Fund (VWETX). This fund seeks high and sustainable current income. Investments are selected using a fundamental, bottom-up credit selection process and consist of long-term, high-quality bonds broadly diversified by issuer and industry sector.

Vanguard Long-Term Bond Index Fund (VBLLX). This fund seeks high current income with high credit quality and to track the performance of the Barclays U.S. Long Government/Credit Float Adjusted Index. The fund is passively managed using index sampling and includes diversified exposure to long-term, investment-grade U.S. bond market instruments. Obligations of the U.S. government make up a significant portion of the fund's holdings.

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Fair Value of Plan Assets. The fair value of the Plan assets at December 31, 2014 and 2013, by asset category, is summarized below.

	Total	Fair Value Measurements at December 31, 2014 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:	(in thousands)			
Vanguard Prime Money Market Mutual Fund	\$92	\$-	\$ 92	\$ -
Total cash equivalents	92	-	92	-
Equity mutual funds:				
Vanguard Total Stock Market Index Fund (VITSX)	8,226	8,226	-	-
Vanguard Total International Stock Index Fund (VTSNX)	7,264	7,264	-	-
Total equity funds	15,490	15,490	-	-
Fixed income mutual funds:				
Vanguard Long-Term Investment Grade Fund (VWETX)	15,706	15,706	-	-
Vanguard Long-Term Bond Index Fund (VBLLX)	20,920	20,920	-	-
Total fixed income mutual funds	36,626	36,626	-	-
Total Plan Assets	\$52,208	\$52,116	\$ 92	\$ -

	Total	Fair Value Measurements at December 31, 2013 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:	(in thousands)			
Short term investment fund	\$304	\$-	\$ 304	\$ -
Total cash equivalents	304	-	304	-
Equity mutual funds:				
Vanguard Total Stock Market Index Fund (VITSX)	12,383	12,383	-	-
Vanguard Total International Stock Index Fund (VTSNX)	11,433	11,433	-	-
Total equity funds	23,816	23,816	-	-
Fixed income mutual funds:				
Vanguard Long-Term Investment Grade Fund (VWETX)	9,233	9,233	-	-
Vanguard Long-Term Bond Index Fund (VBLLX)	13,829	13,829	-	-
Total fixed income mutual funds	23,062	23,062	-	-

Total Plan Assets \$47,182 \$46,878 \$ 304 \$ -

The fair values of the Vanguard mutual funds represent their net asset values (“NAV”) at December 31, 2014 and 2013. On an ongoing basis, the Plan has the ability to readily redeem its investments in these funds at their NAV per share with no advance notification.

An explanation of matrix pricing and the definitions of Level 1, 2 and 3 fair value measurements are included in Note N to these consolidated financial statements.

At December 31, 2014 and 2013, the Plan’s cash and cash equivalents amounted to .2% and .6%, respectively, of the Plans total assets and represented investments in the Vanguard Prime Money Market Mutual Fund and the State Street Bank & Trust Company Short-Term Investment Fund, respectively.

Estimated Future Benefit Payments. The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the Plan.

Year	Amount (in thousands)
2015	\$ 1,304
2016	1,470
2017	1,695
2018	1,799
2019	1,895
2020-2024	11,193

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The Bank's Supplemental Executive Retirement Plan ("SERP") currently covers the Bank's CEO. The benefit under the SERP is equal to the additional amount that the CEO would be entitled to under the Pension and 401(k) plans in the absence of Internal Revenue Code limitations. SERP expense was \$133,000, \$(19,000) and \$45,000 in 2014, 2013 and 2012, respectively.

**NOTE L – OTHER OPERATING EXPENSES**

Expenses included in other operating expenses that exceed one percent of the aggregate of total interest income and noninterest income in one or more of the years shown are as follows:

	2014	2013	2012
	(in thousands)		
Computer services	\$1,970	\$1,985	\$1,911
FDIC assessment	1,278	1,139	1,034
Marketing	927	670	615

**NOTE M – COMMITMENTS AND CONTINGENT LIABILITIES**

**Financial Instruments With Off-Balance-Sheet Risk.** In the normal course of business, the Bank enters into various types of off-balance sheet arrangements to meet the financing needs of its customers. These off-balance sheet financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. These instruments involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets and expose the Bank to credit loss in the event of nonperformance by the Bank's customers. The Bank's exposure to credit loss 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.

At December 31, 2014 and 2013, financial instruments whose contract amounts represent credit risk are as follows:

	2014		2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to extend credit	\$10,655	\$203,809	\$9,151	\$136,331
Standby letters of credit	4,043	-	4,347	-

A commitment to extend credit is a legally binding agreement to lend to a customer as long as there is no violation of any condition established in the contract. Unused home equity lines are the largest component of the Bank's variable rate loan commitments. 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 lines, can be frozen, reduced or terminated by the Bank based on the financial condition of the borrower, the total commitment amounts do not necessarily represent future cash requirements. Home equity lines generally expire ten years from their date of origination, other real estate loan commitments generally expire within 60 days and commercial loan commitments generally expire within one year. At December 31, 2014, the Bank's fixed rate loan commitments are to make loans with interest rates ranging from 3.0% to 4.5% and maturities of 5 years and over. The amount of collateral obtained, if any, by the Bank upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include mortgages on commercial and residential real estate, security interests in business assets, equipment, deposit accounts with the Bank or other financial institutions and securities.

Standby letters of credit are conditional commitments issued by the Bank to assure the performance or financial obligations of a customer to a third party. The Bank's standby letters of credit extend through December 2015. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank generally holds collateral and/or obtains personal guarantees supporting these commitments. The extent of collateral held for these commitments at December 31, 2014 varied from 0% to 100% of the contractual notional amount of each instrument, with the average amount of collateral totaling 85% of the aggregate outstanding

notional amount. Standby letters of credit are considered financial guarantees and are recorded at fair value. Commercial letters of credit are conditional commitments issued by the Bank to assure the payment by a customer to a supplier. The credit risk involved in issuing commercial letters of credit is the same as that discussed in the preceding paragraph for standby letters of credit. The Bank generally holds collateral and/or obtains personal guarantees supporting these commitments. There were no commercial letters of credit outstanding at December 31, 2014. Employment Contracts. At December 31, 2014, the chief executive officer, senior executive vice president and certain of the Bank's executive vice presidents had employment contracts with the Corporation under which they are entitled to severance compensation in the event of an involuntary termination of employment or resignation of employment following a change in control. The terms of these contracts currently range from eighteen months to three years. Unless the Corporation gives written notice of non-extension within the time frames set forth in the contracts, the contracts are automatically extended at the expiration of each year for a new period ranging from eighteen months to three years. The current aggregate annual salaries provided for in these contracts is approximately \$1,893,500.

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Lease Commitments. At December 31, 2014, minimum annual rental commitments under non-cancelable operating leases are as follows:

Year	Amount (in thousands)
2015	\$ 1,583
2016	1,469
2017	1,399
2018	1,175
2019	997
Thereafter	3,373
	\$ 9,996

The Bank has various renewal options on the above leases. Rent expense, including amounts paid for real estate taxes and common area maintenance, was \$1,733,000, \$1,625,000 and \$1,531,000 in 2014, 2013 and 2012, respectively.

Related Party Leases. Buildings occupied by two of the Bank's branch offices are leased from a director of the Corporation and the Bank. The leases expire on October 31, 2017 and December 31, 2019. Aggregate base rent expense for these leases for the years ending December 31, 2014, 2013 and 2012 amounted to approximately \$68,000 in each year. In addition to base rent, the Bank is responsible for its proportionate share of the real estate taxes on one of the leased properties. Management believes that the terms of these leases are comparable to market terms that could have been obtained from an unrelated third party.

Litigation. The Corporation is a named defendant in several legal actions incidental to the business. For some of these actions there is a possibility that the Corporation will sustain a financial loss. Management believes that none of the possible losses are material.

**NOTE N – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial Instruments Recorded at Fair Value. When measuring fair value, the Corporation uses a fair value hierarchy, which is designed to maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy involves three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation deems transfers between levels of the fair value hierarchy to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels of the fair value hierarchy in either 2014 or 2013.

The fair values of the Corporation's investment securities designated as available-for-sale at December 31, 2014 and 2013 are set forth in the tables that follow. These values are determined on a recurring basis using matrix pricing (Level 2 inputs). Matrix pricing, which is a mathematical technique widely used in the industry to value debt securities, does not rely exclusively on quoted prices for the specific securities but rather on the relationship of such securities to other benchmark quoted securities.



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	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements at December 31, 2014 Using:				
Available-for-Sale Securities:	(in thousands)			
State and municipals	\$411,797	\$-	\$ 411,797	\$ -
Pass-through mortgage securities	131,181	-	131,181	-
Collateralized mortgage obligations	231,167	-	231,167	-
	\$774,145	\$-	\$ 774,145	\$ -

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements at December 31, 2013 Using:				
Available-for-Sale Securities:	(in thousands)			
State and municipals	\$356,553	\$-	\$ 356,553	\$ -
Pass-through mortgage securities	151,818	-	151,818	-
Collateralized mortgage obligations	276,422	-	276,422	-
	\$784,793	\$-	\$ 784,793	\$ -

Assets measured at fair value on a nonrecurring basis at December 31, 2014 and 2013, are set forth in the table that follows. Real estate appraisals utilized in measuring the fair value of impaired loans may employ a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. In arriving at fair value, the Corporation adjusts the value set forth in the appraisal by deducting costs to sell and a distressed sale adjustment. The adjustments made by the appraisers and the Corporation are deemed to be significant unobservable inputs and therefore result in a Level 3 classification of the inputs used for determining the fair value of impaired loans. Because the Corporation has a small amount of impaired loans measured at fair value, the impact of unobservable inputs on the Corporation's financial statements is not material.

Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements Using:			

	Markets for Identical Assets (Level 1)			
December 31, 2014:	(in thousands)			
Impaired loans:				
Residential mortgages - closed end	\$ 173	\$ -	\$ -	\$ 173
December 31, 2013:				
Residential mortgage held-for-sale:				
Closed end	\$ 900	\$ -	\$ -	\$ 900
Impaired loans:				
Commercial mortgages - owner-occupied	\$ 530	\$ -	\$ -	\$ 530
Residential mortgages - closed end	278	-	-	278
	\$ 808	\$ -	\$ -	\$ 808

The impaired loans set forth in the preceding table had principal balances of \$179,000 and \$1,024,000 at December 31, 2014 and 2013, respectively, and valuation allowances of \$6,000 and \$216,000, respectively. During the years ended December 31, 2014, 2013 and 2012, the Corporation recorded provisions (credit) for loan losses of \$(14,000), \$127,000 and \$26,000, respectively, for these impaired loans measured at fair value.

The loan held-for-sale in the preceding table at December 31, 2013 was a nonaccruing troubled debt restructuring carried at fair value. This held-for-sale loan was sold in 2014 for its carrying value of \$900,000.

Financial Instruments Not Recorded at Fair Value. Fair value estimates are made at a specific point in time. Such estimates are generally subjective in nature and dependent upon a number of significant assumptions associated with each financial instrument or group of similar financial instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows, and relevant available market information. Changes in assumptions could significantly affect the estimates. In addition, fair value estimates do not reflect the value of anticipated future business, premiums or discounts that could result from offering for sale at one time the Corporation's entire holdings of a particular financial instrument, or the tax consequences of realizing gains or losses on the sale of financial instruments.

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The following table sets forth the carrying amounts and estimated fair values of financial instruments that are not recorded at fair value in the Corporation's financial statements at December 31, 2014 and 2013.

	Level of Fair Value Hierarchy	December 31, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)					
Financial Assets:					
Cash and cash equivalents	Level 1	\$32,944	\$32,944	\$35,497	\$35,497
Held-to-maturity securities	Level 2	21,119	22,156	31,315	32,759
Held-to-maturity securities	Level 3	714	714	789	789
Loans	Level 3	1,781,425	1,765,202	1,456,281	1,447,199
Restricted stock	Level 1	23,304	23,304	19,869	19,869
Accrued interest receivable:					
Investment securities	Level 2	4,689	4,689	4,766	4,766
Loans	Level 3	4,355	4,355	3,819	3,819
Financial Liabilities:					
Checking deposits	Level 1	655,753	655,753	599,114	599,114
Savings, NOW and money market deposits	Level 1	1,000,325	1,000,325	917,974	917,974
Time deposits	Level 2	328,947	333,992	265,040	270,545
Short-term borrowings	Level 1	136,486	136,486	110,463	110,463
Long-term debt	Level 2	345,000	348,519	285,000	285,502
Accrued interest payable:					
Checking, savings, NOW and money market deposits	Level 1	27	27	33	33
Time deposits	Level 2	5,077	5,077	5,802	5,802
Short-term borrowings	Level 1	1	1	1	1
Long-term debt	Level 2	667	667	571	571

The following methods and assumptions are used by the Corporation in measuring the fair value of financial instruments disclosed in the preceding table.

Cash and cash equivalents. The recorded book value of cash and cash equivalents is their fair value.

Investment securities. Fair values are based on quoted prices for similar assets in active markets or derived principally from observable market data.

Loans. The total loan portfolio is divided into three segments: (1) residential mortgages; (2) commercial mortgages and commercial loans; and (3) and consumer loans. Each segment is further divided into pools of loans with similar financial characteristics (i.e. product type, fixed versus variable rate, time to rate reset, length of term, conforming versus nonconforming). Cash flows for each pool, including estimated prepayments if applicable, are discounted utilizing market or internal benchmarks which management believes are reflective of current market rates for similar loan products. The discounted value of the cash flows is reduced by the related allowance for loan losses to arrive at an estimate of fair value.

Restricted stock. The recorded book value of Federal Home Loan Bank stock and Federal Reserve Bank stock is their fair value because the stock is redeemable at cost.

Deposit liabilities. The fair value of deposits with no stated maturity, such as checking deposits, money market deposits, NOW accounts and savings deposits, is equal to their recorded book value. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate at which the Bank could currently replace these deposits with wholesale borrowings from the Federal Home Loan Bank.

Borrowed funds. For short-term borrowings maturing within ninety days, the recorded book value is a reasonable estimate of fair value. The fair value of long-term debt is based on the discounted value of contractual cash flows. The discount rate is equivalent to the rate at which the Bank could currently replace these borrowings with wholesale borrowings from the Federal Home Loan Bank.

Accrued interest receivable and payable. For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Off-balance-sheet Items. The fair value of off-balance sheet items is not considered to be material.

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## NOTE O – PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for the Corporation (parent company only) is as follows:

CONDENSED BALANCE SHEETS	December 31,	
	2014	2013
	(in thousands)	
Assets:		
Cash and due from banks	\$1,256	\$1,667
Investment in subsidiary bank, at equity	233,103	205,805
Prepaid income taxes	357	496
Deferred income tax benefits	1,186	974
Other assets	43	2
	\$235,945	\$208,944
Liabilities:		
Other liabilities	\$-	\$12
Cash dividends payable	2,642	2,376
	2,642	2,388
Stockholders' equity:		
Common stock	1,389	914
Surplus	51,009	46,873
Retained earnings	170,120	157,107
	222,518	204,894
Accumulated other comprehensive income, net of tax	10,785	1,662
	233,303	206,556
	\$235,945	\$208,944

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## CONDENSED STATEMENTS OF INCOME

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Income:			
Dividends from subsidiary bank	\$6,000	\$3,900	\$6,550
Expenses:			
Salaries	1,511	592	782
Other operating expenses	409	408	353
	1,920	1,000	1,135
Income before income taxes	4,080	2,900	5,415
Income tax benefit	(759 )	(397 )	(451 )
Income before undistributed earnings of subsidiary bank	4,839	3,297	5,866
Equity in undistributed earnings	18,175	18,003	14,527
Net income	\$23,014	\$21,300	\$20,393
Comprehensive Income	\$32,137	\$6,222	\$19,445

## CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Cash Flows From Operating Activities:			
Net income	\$23,014	\$21,300	\$20,393
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiary bank	(18,175)	(18,003)	(14,527)
Deferred income tax provision (credit)	(289 )	(67 )	15
Stock-based compensation expense	1,511	592	782
Decrease (increase) in prepaid income taxes	139	105	(140 )
Increase in other assets	(41 )	(1 )	-
Increase (decrease) in other liabilities	(12 )	12	-
Net cash provided by operating activities	6,147	3,938	6,523
Cash Flows From Financing Activities:			
Repurchase and retirement of common stock	(286 )	(95 )	(369 )
Proceeds from exercise of stock options	1,055	1,418	2,603
Tax benefit of stock options	224	162	135
Proceeds from issuance of common stock	2,185	2,167	2,006
Cash dividends paid	(9,736 )	(6,904 )	(10,602)
Net cash used in financing activities	(6,558 )	(3,252 )	(6,227 )
Net increase (decrease) in cash and cash equivalents*	(411 )	686	296
Cash and cash equivalents, beginning of year	1,667	981	685
Cash and cash equivalents, end of year	\$1,256	\$1,667	\$981
Supplemental Schedule of Noncash Financing Activities:			
Cash dividends payable	\$2,642	\$2,376	\$-

\*Cash and cash equivalents is defined as cash and due from banks and includes, among other things, the checking and money market accounts with the Corporation's wholly-owned bank subsidiary.



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## NOTE P – QUARTERLY FINANCIAL DATA (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands, except per share data)				
2014					
Interest income	\$19,692	\$20,018	\$21,059	\$21,207	\$81,976
Interest expense	3,597	3,670	3,817	3,964	15,048
Net interest income	16,095	16,348	17,242	17,243	66,928
Provision for loan losses (credit)	(59 )	982	1,221	1,045	3,189
Noninterest income before net securities gains	1,778	1,748	2,005	1,729	7,260
Net gains on sales of securities	69	49	23	-	141
Noninterest expense	10,190	10,095	10,147	11,599	42,031
Income before income taxes	7,811	7,068	7,902	6,328	29,109
Income tax expense	1,854	1,524	1,848	869	6,095
Net income	5,957	5,544	6,054	5,459	23,014
Earnings per share:					
Basic	.43	.40	.44	.39	1.67
Diluted	.43	.40	.43	.39	1.65
Comprehensive income	11,988	10,041	6,114	3,994	32,137
2013					
Interest income	\$18,119	\$18,375	\$18,802	\$19,555	\$74,851
Interest expense	2,949	2,919	3,091	3,405	12,364
Net interest income	15,170	15,456	15,711	16,150	62,487
Provision for loan losses (credit)	(192 )	947	1,080	1,162	2,997
Noninterest income before net securities gains	1,670	1,698	1,839	1,822	7,029
Net gains on sales of securities	4	-	-	12	16
Noninterest expense	9,780	9,467	9,961	10,292	39,500
Income before income taxes	7,256	6,740	6,509	6,530	27,035
Income tax expense	1,617	1,433	1,330	1,355	5,735
Net income	5,639	5,307	5,179	5,175	21,300
Earnings per share:					
Basic	.42	.39	.38	.38	1.56
Diluted	.41	.39	.38	.37	1.55
Comprehensive income (loss)	1,273	(7,197 )	5,231	6,915	6,222



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The First of Long Island Corporation

Glen Head, New York

We have audited the accompanying consolidated balance sheets of The First of Long Island Corporation as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited The First of Long Island Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in 2013 in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The First of Long Island Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The First of Long Island Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, The First of Long Island Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in 2013 in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

New York, New York  
March 16, 2015

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ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL  
9. DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation's Principal Executive Officer, Michael N. Vittorio, and Principal Financial Officer, Mark D. Curtis, have evaluated the Corporation's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 ("Act"), as of the end of the period covered by this report. Based upon that evaluation, they have concluded that the Corporation's disclosure controls and procedures are effective as of the end of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting

The management of The First of Long Island Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, based on the criteria established in 2013 in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The First of Long Island Corporation's system of internal control over financial reporting was designed by or under the supervision of the Corporation's Principal Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of the preparation of the Corporation's financial statements for external and regulatory reporting purposes, in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The First of Long Island Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2014, based on the criteria established in 2013 in Internal Control - Integrated Framework issued by COSO. Based on the assessment, management determined that, as of December 31, 2014, the Corporation's internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

Crowe Horwath LLP, an independent registered public accounting firm, has expressed an opinion on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2014 in their report which appears on page 67.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

"Election of Directors," "Business Experience of Directors," "Qualifications of Directors," "Management," "Governance and Nominating Committee," "Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 21, 2015 are incorporated herein by reference.

The Corporation has adopted a code of ethics that applies to its principal executive officer, principal financial officer, chief risk officer, chief accounting officer and controller and persons performing similar functions. The Corporation's Code of Ethics and amendments to and waivers from the Code of Ethics are posted on the Bank's website. To access the Code of Ethics for Senior Financial Officers go to the homepage of the Bank's Internet website at [www.fnbli.com](http://www.fnbli.com) and click on "Investor Relations," and then click on "Code of Ethics."

ITEM 11.

EXECUTIVE  
COMPENSATION

“Compensation of Directors,” “Compensation Discussion and Analysis,” “Compensation of Executive Officers,” “Compensation Pursuant to Plans,” “Employment Contracts,” “Compensation Committee” and “Compensation Committee Report” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 21, 2015 are incorporated herein by reference.

ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

“Voting Securities and Principal Stockholders” and “Equity Compensation Plan Information” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 21, 2015 are incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

“Transactions with Management and Others” and “Election of Directors” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 21, 2015 is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

“Ratification of Appointment of Independent Registered Public Accounting Firm” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 21, 2015 is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The following consolidated financial statements of the Corporation and its subsidiary and report of independent registered public accounting firm thereon as required by this Item are included in Part II, Item 8.

- Consolidated Balance Sheets
- Consolidated Statements of Income
- Consolidated Statements of Comprehensive Income
- Consolidated Statement of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

(a) 2. Financial Statement Schedules

None applicable.

(a) 3. Listing of Exhibits

See Index of Exhibits that follows.

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INDEX OF EXHIBITS

Exhibit

No.      Description of Exhibit

3(i)	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(i) of Registrant's Form 10-K filed March 29, 1999)
3(ii)	By laws, as amended (incorporated by reference to Exhibit 3(ii) of Registrant's Form 8-K filed January 23, 2013)
3(iii)	Certificate of Amendment of Certificate of Incorporation dated May 1, 2014
4	Amended and Restated Shareholder Protection Rights Agreement dated as of August 1, 2006, between The First of Long Island Corporation and Continental Stock Transfer & Trust Company (successor appointee, effective December 15, 2014), as Rights Agent (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K filed July 21, 2006)
10.1	Incentive Compensation Plan for Directors and Executive Officers, as amended (incorporated by reference to Items 1.01 of Registrant's Form 8-K filed March 7, 2012 and Item 5.02 of Registrant's Form 8-K filed January 28, 2013)
10.2	1996 Stock Option and Appreciation Rights Plan, as amended (incorporated by reference to Exhibit 10(b) of Registrant's Form 10-K filed March 22, 1996, Exhibit 10.4 of Registrant's Form 10-K filed March 27, 2001 and Exhibit 10.8 of Registrant's Form 8-K filed December 19, 2008)
10.3	The First of Long Island Corporation 2006 Stock Compensation Plan, as amended (incorporated by reference to Appendix A of Registrant's Proxy Statement filed March 15, 2006, Exhibit 10.9 of Registrant's Form 8-K filed December 19, 2008, part of Item 5.02 of Registrant's Form 8-K filed June 21, 2010 and Item 5.02 and Exhibit 10.15 of Registrant's Form 8-K filed September 27, 2010)
10.4	Employment Agreement between Registrant and Michael N. Vittorio, as amended (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 20, 2005 and Exhibit 10.1 of Registrant's Form 8-K filed December 19, 2008)
10.5	Employment Agreement between Registrant and Donald L. Manfredonia, as amended (incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K filed March 29, 2002, Exhibit 10.5 of Registrant's Form 8-K filed March 3, 2005 and Exhibit 10.3 of Registrant's Form 8-K filed December 19, 2008)
10.6	Employment Agreement between Registrant and Richard Kick, as amended (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K filed March 3, 2005 and Exhibit 10.5 of Registrant's Form 8-K filed December 19, 2008)
10.7	Employment Agreement between Registrant and Mark D. Curtis, as amended (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed March 3, 2005, Exhibit 10.4 of Registrant's Form 8-K filed December 19, 2008 and Exhibit 10.10 of Registrant's Form 8-K filed October 21, 2009)
10.8	Employment Agreement between Registrant and Sallyanne K. Ballweg, as amended (incorporated by reference to Exhibit 10.12 of Registrant's Form 8-K filed January 4, 2008, Exhibit 10.13 of Registrant's Form 10-K filed March 16, 2009, Exhibit 10.2 of Registrant's Form 8-K filed December 19, 2008 and Exhibit 10.13 of Registrant's Form 8-K filed May 21, 2009)

- 10.9 Amendment to Supplemental Executive Retirement Program (incorporated by reference to Exhibit 10.10 of Registrant's Form 8-K filed December 19, 2008)
- 10.10 Special Severance Agreement dated as of February 17, 2014 between The First of Long Island Corporation and Richard P. Perro, Executive Vice President (incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q filed May 12, 2014)
- 10.11 Special Severance Agreement dated as of February 14, 2011 between The First of Long Island Corporation and Christopher Becker, Executive Vice President
- 10.12 The First of Long Island Corporation 2014 Equity Incentive Plan (incorporated by reference to Appendix A of Registrant's Proxy Statement filed March 17, 2014)
- 21 Subsidiary information included in Part 1, "Business" of this Form 10-K
- 23 Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)
- 32 Certification of Chief Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) and U.S.C. Section 1350
- 101 The following materials from the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE FIRST OF LONG ISLAND CORPORATION

(Registrant)

Dated: March 16, 2015 By /s/ MICHAEL N. VITTORIO  
MICHAEL N. VITTORIO, President & Chief Executive Officer  
(principal executive officer)

By /s/ MARK D. CURTIS  
MARK D. CURTIS, Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial officer)

By /s/ WILLIAM APRIGLIANO  
WILLIAM APRIGLIANO, Senior Vice President, Chief Accounting Officer and Controller  
(principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>Signatures</u>	<u>Titles</u>	<u>Date</u>
<u>/s/ WALTER C. TEAGLE III</u> Walter C. Teagle III	Non-executive Chairman of the Board	<u>March 16, 2015</u>
<u>/s/ ALLEN E. BUSCHING</u> Allen E. Busching	Director	<u>March 16, 2015</u>
<u>/s/ PAUL T. CANARICK</u> Paul T. Canarick	Director	<u>March 16, 2015</u>
<u>/s/ ALEXANDER L. COVER</u> Alexander L. Cover	Director	<u>March 16, 2015</u>
<u>/s/ HOWARD THOMAS HOGAN JR.</u> Howard Thomas Hogan Jr.	Director	<u>March 16, 2015</u>
<u>/s/ JOHN T. LANE</u> John T. Lane	Director	<u>March 16, 2015</u>
<u>/s/ J. DOUGLAS MAXWELL JR.</u> J. Douglas Maxwell Jr.	Director	<u>March 16, 2015</u>
<u>/s/ STEPHEN V. MURPHY</u> Stephen V. Murphy	Director	<u>March 16, 2015</u>
<u>/s/ MILBREY RENNIE TAYLOR</u> Milbrey Rennie Taylor	Director	<u>March 16, 2015</u>



/s/ ERIC TVETER  
Eric Tveter

Director

March 16, 2015

/s/ MICHAEL N. VITTORIO  
Michael N. Vittorio

Director

March 16, 2015

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