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Multifamily

—

682,593

682,593

—

6,423

6,423

Other

—

414,783

414,783

—

4,734

4,734

Owner-occupied

531

95,100

95,631

—

1,076

1,076

Residential mortgages:

Closed end

1,368

1,557,196

1,558,564

18

19,329

19,347

Revolving home equity

—

83,625

83,625

—

689

689

Consumer and other

—

5,533

5,533

—

74

74

$

1,947

$

2,948,405

$

2,950,352

$

18

$

33,766

$

33,784

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

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

(in thousands)	Balance at 1/1/17	Chargeoffs	Recoveries	Provision for Loan Losses (Credit)	Balance at 12/31/17
Commercial and industrial	$ 1,408	$ 102	$ 13	$ 122	$ 1,441
Commercial mortgages:					
Multifamily	6,119	—	—	304	6,423
Other	4,296	—	—	438	4,734
Owner-occupied	959	820	—	937	1,076
Residential mortgages:					
Closed end	15,740	97	3	3,701	19,347
Revolving home equity	1,401	100	—	(612)	689
Consumer and other	134	27	3	(36)	74
	$ 30,057	$ 1,146	$ 19	$ 4,854	$ 33,784

(in thousands)	Balance at 1/1/16	Chargeoffs	Recoveries	Provision for Loan Losses (Credit)	Balance at 12/31/16
Commercial and industrial	$ 928	$ 445	$ 4	$ 921	$ 1,408
Commercial mortgages:					
Multifamily	6,858	—	—	(739)	6,119
Other	3,674	—	—	622	4,296
Owner-occupied	1,047	—	—	(88)	959
Residential mortgages:					
Closed end	13,639	259	9	2,351	15,740
Revolving home equity	1,016	—	12	373	1,401
Consumer and other	94	5	5	40	134
	$ 27,256	$ 709	$ 30	$ 3,480	$ 30,057

(in thousands)	Balance at 1/1/15	Chargeoffs	Recoveries	Provision for Loan Losses	Balance at 12/31/15

				(Credit)	
Commercial and industrial	$ 838	$ 166	$ 7	$ 249	$ 928
Commercial mortgages:					
Multifamily	7,207	91	27	(285)	6,858
Other	2,340	1	39	1,296	3,674
Owner-occupied	1,023	—	—	24	1,047
Residential mortgages:					
Closed end	10,599	7	9	3,038	13,639
Revolving home equity	1,121	67	5	(43)	1,016
Consumer and other	93	37	—	38	94
	$ 23,221	$ 369	$ 87	$ 4,317	$ 27,256

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For individually impaired loans, the following tables set forth by class of loans at December 31, 2017, 2016 and 2015 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, 2017, 2016 and 2015. The recorded investment is the unpaid principal balance of the loans less any interest payments applied to principal and any direct chargeoffs plus or minus net deferred loan costs and fees. 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.

	2017				
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ 48	$ 48	$ —	$ 67	$ 5
Commercial mortgages - owner-occupied	531	615	—	654	21
Residential mortgages - closed end	1,095	1,102	—	1,122	7
With an allowance recorded:					
Residential mortgages - closed end	273	272	18	280	13
Total:					
Commercial and industrial	48	48	—	67	5
Commercial mortgages - owner-occupied	531	615	—	654	21
Residential mortgages - closed end	1,368	1,374	18	1,402	20
	$ 1,947	$ 2,037	$ 18	$ 2,123	$ 46

	2016				
With no related allowance recorded:					
Commercial and industrial	$ 131	$ 131	$ —	$ 134	$ 1
Commercial mortgages - owner-occupied	558	636	—	575	—
Residential mortgages:					
Closed end	230	313	—	245	—
Revolving home equity	280	279	—	280	—
With an allowance recorded:					
Residential mortgages:					
Closed end	626	634	45	641	29
Revolving home equity	1,490	1,491	482	1,493	—
Total:					
Commercial and industrial	131	131	—	134	1

Commercial mortgages - owner-occupied	558	636	—	575	—
Residential mortgages:					
Closed end	856	947	45	886	29
Revolving home equity	1,770	1,770	482	1,773	—
	$ 3,315	$ 3,484	$ 527	$ 3,368	$ 30

	2015				
With no related allowance recorded:					
Commercial mortgages - owner-occupied	$ 594	$ 654	$ —	$ 612	$ —
Residential mortgages:					
Closed end	306	405	—	530	—
Revolving home equity	522	521	—	525	6
With an allowance recorded:					
Residential mortgages - closed end	3,491	3,494	428	3,555	89
Total:					
Commercial mortgages - owner-occupied	594	654	—	612	—
Residential mortgages:					
Closed end	3,797	3,899	428	4,085	89
Revolving home equity	522	521	—	525	6
	$ 4,913	$ 5,074	$ 428	$ 5,222	$ 95

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

	December 31, 2017						
(in thousands)	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
Commercial and industrial	$ 20	$ —	$ —	$ —	$ 20	$ 109,603	$ 109,623
Commercial mortgages:							
Multifamily	—	—	—	—	—	682,593	682,593
Other	—	—	—	—	—	414,783	414,783
Owner-occupied	—	—	—	—	—	95,631	95,631
Residential mortgages:							
Closed end	2,186	21	—	1,000	3,207	1,555,357	1,558,564
Revolving home equity	522	—	—	—	522	83,103	83,625
Consumer and other	7	—	—	—	7	5,526	5,533
	$ 2,735	$ 21	$ —	$ 1,000	$ 3,756	$ 2,946,596	$ 2,950,352

	December 31, 2016						
Commercial and industrial	$ 224	$ —	$ —	$ —	$ 224	$ 125,814	$ 126,038
Commercial mortgages:							
Multifamily	—	—	—	—	—	610,385	610,385
Other	—	—	—	—	—	371,142	371,142
Owner-occupied	—	—	621	558	1,179	102,492	103,671
Residential mortgages:							
Closed end	881	—	—	230	1,111	1,237,320	1,238,431
Revolving home equity	—	—	—	1,770	1,770	84,691	86,461
Consumer and other	1	—	—	—	1	9,292	9,293
	$ 1,106	$ —	$ 621	$ 2,558	$ 4,285	$ 2,541,136	$ 2,545,421

There were no loans in the process of foreclosure nor did the Bank hold any foreclosed residential real estate property at December 31, 2017 or 2016. In 2017, the Bank took a deed-in-lieu of foreclosure for one commercial real estate property. The property is recorded as other real estate owned at December 31, 2017 and has a carrying value of $5,125,000, which is net of a valuation allowance of $725,000. Other real estate owned at December 31, 2017 consists solely of the property taken and is included in the consolidated balance sheet under "other assets." The Bank sold the property for its carrying value in the first quarter of 2018.

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 following table presents information about loans modified in troubled debt restructurings during the year ended December 31, 2016 and 2015. The Bank did not modify any loans in troubled debt restructurings during 2017.

	Outstanding Recorded Investment			Interest Rates	
(dollars in thousands)	Number of Loans	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
2016:					
Commercial and industrial	2	$ 1,131	$ 1,131	5.00% and 6.75%	5.00% and 6.75%
Residential mortgages - closed end	1	109	109	3.95%	3.95%
	3	$ 1,240	$ 1,240		
2015:					
Residential mortgages:					
Closed end	1	$ 2,713	$ 2,713	5.25%	4.00%
Revolving home equity	1	245	245	5.25%	4.00%
	2	$ 2,958	$ 2,958		

The 2016 troubled debt restructurings include the modification of a $1.0 million commercial and industrial loan into a new time loan with a maturity of December 31, 2016. The loan was subsequently repaid during 2016. The 2015 restructurings involved two loans to a single borrower and resulted in a charge to the provision for loan losses at the time of restructuring of $332,000. The post-modification interest rates for all of the 2016 and 2015 restructurings in the table above were lower than the current market rate for new debt with similar risk.

At December 31, 2017, 2016 and 2015, the Bank had an allowance for loan losses of $18,000, $45,000 and $395,000, 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 no troubled debt restructurings for which there was a payment default during 2017, 2016 and 2015 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.

Risk Characteristics. Credit risk within the Bank's loan portfolio primarily stems from factors such as changes in the borrower's financial condition, credit concentrations, changes in collateral values, economic conditions and environmental contamination of properties securing mortgage loans. The Bank's commercial loans, including those secured by real estate 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 residential mortgage loans is cash flows from individual borrowers and co-borrowers. The primary source of repayment for multifamily loans is cash flows from the underlying properties, a substantial portion of which are rent stabilized or rent controlled. Such cash flows for both residential mortgage and multifamily loans are dependent on the strength of the local economy.

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 of the borrower and any guarantors, payment experience, credit underwriting, documentation, public records, due diligence checks and current economic trends.

Commercial and industrial loans and commercial mortgage loans are risk rated utilizing a ten point rating system. The ten point risk rating system is described hereinafter.

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 during the underwriting process and affirmed as part of the approval process. 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 things, at least 80% of the recorded investment of commercial real estate loans as of December 31 of the prior year must be reviewed annually. Lines of credit are also reviewed annually at each proposed reaffirmation. 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. Loans shown as Pass are all loans other than those risk rated Watch, Special Mention, Substandard or Doubtful.

	December 31, 2017					
	Internally Assigned Risk Rating					
(in thousands)	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 108,846	$ 450	$ 279	$ 48	$ —	$ 109,623
Commercial mortgages:						
Multifamily	673,128	2,354	7,111	—	—	682,593
Other	404,379	7,567	2,837	—	—	414,783
Owner-occupied	93,618	—	1,482	531	—	95,631
	$ 1,279,971	$ 10,371	$ 11,709	$ 579	$ —	$ 1,302,630

	December 31, 2016					
Commercial and industrial	$ 125,097	$ 810	$ —	$ 131	$ —	$ 126,038
Commercial mortgages:						
Multifamily	603,103	—	7,282	—	—	610,385
Other	369,740	1,402	—	—	—	371,142
Owner-occupied	102,725	389	—	557	—	103,671
	$ 1,200,665	$ 2,601	$ 7,282	$ 688	$ —	$ 1,211,236

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. Loans shown as Pass are all loans other than those risk rated Watch, Special Mention, Substandard or Doubtful.

	December 31, 2017					
	Internally Assigned Risk Rating					
(in thousands)	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Residential mortgages:						
Closed end	$ 1,554,168	$ 2,200	$ 828	$ 1,368	$ —	$ 1,558,564
Revolving home equity	82,665	256	704	—	—	83,625
Consumer and other	5,236	—	—	—	—	5,236
	$ 1,642,069	$ 2,456	$ 1,532	$ 1,368	$ —	$ 1,647,425

	December 31, 2016					
Residential mortgages:						
Closed end	$ 1,236,152	$ 982	$ 441	$ 856	$ —	$ 1,238,431
Revolving home equity	84,189	—	501	1,771	—	86,461
Consumer and other	8,614	—	—	—	—	8,614
	$ 1,328,955	$ 982	$ 942	$ 2,627	$ —	$ 1,333,506

Deposit account overdrafts were $297,000 and $679,000 at December 31, 2017 and 2016, 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 2017 and 2016. The aggregate outstanding amount of these loans was $36,000 and $99,000 at December 31, 2017 and 2016, respectively. During 2017, no new loans were made to such persons. Repayments totaled $63,000 in 2017. There were no loans to directors or executive officers that were nonaccrual at December 31, 2017 or 2016.

NOTE D – PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	December 31,	
(in thousands)	2017	2016
Land	$ 9,038	$ 8,466
Buildings and improvements	26,825	21,660
Leasehold improvements	12,652	11,808
Furniture and equipment	30,800	29,016
Construction in process	2,425	1,911
	81,740	72,861
Accumulated depreciation and amortization	(42,092)	(38,500)
	$ 39,648	$ 34,361

NOTE E – DEPOSITS

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

Year (dollars in thousands)	Less than $100,000	$100,000 or More	Total
2018	$ 27,972	$ 47,654	$ 75,626
2019	35,742	54,911	90,653
2020	6,245	13,246	19,491
2021	18,862	33,461	52,323
2022	10,429	28,297	38,726
Thereafter	20,268	26,321	46,589
	$ 119,518	$ 203,890	$ 323,408

The total amount of time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2017 and 2016 was $75.1 million and $63.3 million, respectively. Deposits from executive officers, directors and their affiliates at December 31, 2017 and 2016 were approximately $9.4 million and $4.9 million, respectively.

NOTE F – BORROWED FUNDS

The following table summarizes borrowed funds at December 31, 2017 and 2016.

(in thousands)	December 31, 2017	2016
Short-term borrowings:		
Securities sold under repurchase agreements	$ 11,141	$ 7,012
Federal Home Loan Bank advances	270,000	200,000
	281,141	207,012
Long-term debt:		
Securities sold under repurchase agreements	5,000	5,000
Federal Home Loan Bank advances	418,797	374,212
	423,797	379,212
	$ 704,938	$ 586,224

Accrued interest payable on borrowed funds is included in “accrued expenses and other liabilities” in the consolidated balance sheets and amounted to $711,000 and $598,000 at December 31, 2017 and 2016, respectively.

Securities Sold Under Repurchase Agreements. Securities sold under repurchase agreements are fixed rate financing arrangements with remaining contractual maturities of up to one year as of December 31, 2017.

At December 31, 2017, the Bank has a $5 million repurchase agreement outstanding with a commercial bank. At maturity, the securities underlying the agreement will be returned to the Bank. The agreement is subject to counterparty risk arising from the Bank’s pledge of securities collateral in excess of the amount borrowed. This risk is monitored on an ongoing basis through the Bank’s existing correspondent concentration risk policy. The repurchase agreement is callable as of December 31, 2017.

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

(dollars in thousands)	2017		2016	
Average daily balance during the year	$ 15,903		$ 24,403	
Average interest rate during the year	1.77	%	2.58	%
Maximum month-end balance during the year	$ 19,188		$ 47,938	
Weighted average interest rate at year-end	1.72	%	2.30	%

The following table sets forth as of December 31, 2017 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.

Contractual Maturity (dollars in thousands)	Amount	Weighted Average Rate	
Overnight	$ 11,141	.05	%
2018	5,000	5.45	
	$ 16,141	1.72	%

Overnight repurchase agreements at December 31, 2017 are collateralized by $3.2 million of municipal securities and repurchase agreements due in 2018 are collateralized by $5.5 million of mortgage-backed securities.

Federal Home Loan Bank Advances. FHLB advances are collateralized by a blanket lien on residential and commercial mortgage loans with a lendable value of $2.0 billion at December 31, 2017 and residential and commercial mortgage loans with a lendable value of $1.7 billion at December 31, 2016. Each advance is non-amortizing and, for those advances with a term greater than one day, subject to a prepayment penalty.

The following table sets forth information concerning FHLB advances.

(dollars in thousands)	2017	2016
Average daily balance during the year	$ 524,404	$ 408,151
Average interest rate during the year	1.68 %	1.70 %
Maximum month-end balance during the year	$ 688,797	$ 574,212
Weighted average interest rate at year-end	1.75 %	1.45 %

The following table sets forth as of December 31, 2017 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	$ 270,000	1.53 %
2018	96,450	1.71
2019	73,500	1.91
2020	82,750	1.84
2021	54,225	1.90
2022	75,872	2.05
After 2022	36,000	2.06
	418,797	1.89
	$ 688,797	1.75 %

Other Borrowings. The Bank had no other borrowings at December 31, 2017 or 2016, or at any time during 2016. In 2017, the average balance of other borrowings were de minimis.

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 2017, 2016 and 2015 had effective tax rates of 22.0%, 22.7% and 22.4%, 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,		
	2017	2016	2015
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of federal income tax benefit	2.0	.9	2.1

Tax-exempt income, net of disallowed cost of funding	(10.2)	(11.8)	(14.0)
BOLI income	(1.2)	(.9)	(.9)
Excess tax benefit of stock-based compensation	(1.7)	(.9)	—
Impact of federal tax reform on deferred taxes	(2.0)	—	—
Other	.1	.4	.2
	22.0 %	22.7 %	22.4 %

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The Corporation recorded a $909,000 credit to income tax expense in 2017, representing a 2.0% reduction in the effective tax rate, resulting from a decrease in the net deferred tax liability to reflect the change in federal tax law.

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

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Current:			
Federal	$ 8,139	$ 7,407	$ 7,473
State and local	636	409	874
	8,775	7,816	8,347
Deferred:			
Federal	335	1,114	(1,059)
State and local	779	119	178
	1,114	1,233	(881)
	$ 9,889	$ 9,049	$ 7,466

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

	December 31,	
(in thousands)	2017	2016
Deferred tax assets:		
Allowance for loan losses and off-balance-sheet credit exposure	$ 10,097	$ 12,613
Interest on nonperforming loans	55	75
Accrued bonuses	—	622
Accrued legal settlement	12	21
Stock-based compensation	1,382	1,548
Supplemental executive retirement expense	17	24
Directors' retirement expense	47	66
Accrued rent expense	224	277
Depreciation	724	567
Other real estate owned valuation allowance and asset writedown	266	70
	12,824	15,883
Valuation allowance	—	—
	12,824	15,883
Deferred tax liabilities:		
Prepaid pension	5,615	7,144
Unrealized gains on available-for-sale securities	1,259	1,101
Deferred loan costs	5,142	6,840
Prepaid expenses	146	141
REIT spillover dividend and other	3,043	725
	15,205	15,951
Net deferred tax liability	$ 2,381	$ 68

Unrecognized tax benefits at December 31, 2017 were immaterial. The Corporation had no unrecognized tax benefits at December 31, 2016 and 2015. The Corporation 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 Federal, New York State, New York City, New Jersey and Connecticut income taxes. The Corporation did not incur any amounts for interest and penalties due taxing authorities for calendar years 2017, 2016 or 2015. The Corporation’s 2015 federal income tax return is currently under examination.

NOTE H – REGULATORY MATTERS

Minimum Regulatory Capital Requirements. The Corporation and the Bank are subject to the Basel III regulatory capital requirements issued by the Federal Reserve Board and the Office of the Comptroller of the Currency. These requirements are intended to ensure that the Corporation and the Bank maintain minimum ratios of Tier 1 capital to average assets as well as Common Equity Tier 1 capital, Tier 1 capital and Total capital to risk weighted assets. Failure to meet the minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements of the Corporation and Bank.

Basel III includes guidelines with respect to the components of regulatory capital and calculation of risk weighted assets for balance sheet assets and liabilities and off-balance-sheet positions. The Corporation and the Bank exclude accumulated other comprehensive income components from Tier 1 and Total regulatory capital.

Basel III sets forth prompt corrective action (“PCA”) requirements for all banks and establishes a capital conservation buffer and multi-year capital ratio phase-in schedule with full phase-in by 2019. The Corporation and the Bank exceeded the Basel III minimum capital adequacy requirements, including the capital conservation buffer of 1.25% applicable to the Bank for 2017, and the Bank was well capitalized under the PCA provisions at December 31, 2017. The Corporation’s and the Bank’s actual capital amounts and ratios under the Basel III rules at December 31, 2017 and 2016 are presented in the table below.

	2017					
	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
Tier 1 capital to average assets:						
Consolidated	$ 353,684	9.34 %	$ 151,398	4.00 %	N/A	N/A
Bank	353,568	9.34	151,358	4.00	$ 189,197	5.00 %
Common equity tier 1 capital to risk weighted assets:						
Consolidated	353,684	15.28	104,128	4.50	N/A	N/A
Bank	353,568	15.29	104,051	4.50	150,296	6.50
Tier 1 capital to risk weighted assets:						
Consolidated	353,684	15.28	138,837	6.00	N/A	N/A
Bank	353,568	15.29	138,735	6.00	184,980	8.00
Total capital to risk weighted assets:						
Consolidated	382,670	16.54	185,116	8.00	N/A	N/A
Bank	382,533	16.54	184,980	8.00	231,225	10.00
	2016					
Tier 1 capital to average assets:						
Consolidated	$ 307,214	8.89 %	$ 138,249	4.00 %	N/A	N/A
Bank	307,491	8.90	138,224	4.00	$ 172,781	5.00 %
Common equity tier 1 capital to risk weighted assets:						
Consolidated	307,214	14.70	94,032	4.50	N/A	N/A
Bank	307,491	14.72	94,022	4.50	135,809	6.50
Tier 1 capital to risk weighted assets:						
Consolidated	307,214	14.70	125,377	6.00	N/A	N/A
Bank	307,491	14.72	125,362	6.00	167,150	8.00
Total capital to risk weighted assets:						
Consolidated	333,384	15.95	167,169	8.00	N/A	N/A
Bank	333,658	15.97	167,150	8.00	208,937	10.00

Other Matters. A source of funds for dividend payments to shareholders 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 2018, the Bank could, without prior approval, declare dividends of approximately $52,669,000 plus any 2018 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 2017 was approximately $29,917,000.

NOTE I – STOCK-BASED COMPENSATION

On April 22, 2014, the stockholders of the Corporation approved the 2014 Equity Incentive Plan ("2014 Plan"). Upon approval of the 2014 Plan, no further awards could be made under the 2006 Stock Compensation Plan ("2006 Plan").

2014 Plan. Under the 2014 Plan, awards may be granted to employees and non-employee directors as 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. Awards may also be granted to employees as incentive stock options ("ISOs"). The exercise price of stock options and SARs 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. The 2014 Plan is administered by the Compensation Committee of the Board of Directors. Almost all of the awards granted to date under the 2014 Plan are RSUs. All awards granted under the 2014 Plan will immediately vest upon an involuntary termination following a change in control, total and permanent disability, as defined, or death, and with certain exceptions, will immediately vest in the event of retirement, as defined.

The Corporation has 2,250,000 shares of common stock reserved for awards under the 2014 Plan. 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. All of the 2,250,000 shares may be issued pursuant to the exercise of stock options or SARs. A maximum of 787,500 shares may be issued as restricted stock awards or RSUs. At December 31, 2017, 1,933,819 equity awards remain available to be granted under the 2014 Plan of which 454,449 may be granted as restricted stock awards or RSUs.

Details of RSUs. The following table summarizes the vesting schedule of RSUs outstanding at December 31, 2017.

	2017	2016	2015
Number of RSUs :			
Awarded during the year	94,329	107,274	112,868
Outstanding at December 31, 2017	92,997	88,074	93,063
Vested and convertible at December 31, 2017	—	—	86,532
Scheduled to vest during:			
2018	10,113	78,278	6,531
2019	69,208	7,546	—
2020	10,426	2,250	—
2021	3,250	—	—
Total RSUs vested and expected to vest	92,997	88,074	93,063

The RSUs in the table above include performance-based RSUs with vesting based on the financial performance of the Corporation in 2017, 2018 and 2019 and service-based RSUs with various service-based vesting periods. The grant date fair value of RSUs awarded in 2016 is equal to the market price of the shares underlying the awards on the grant date. The grant date fair value of RSUs awarded in 2015 and 2017 is equal to the market price of the shares underlying the awards on the grant date, discounted for dividends that are not paid on these RSUs. The fair values of awards made in 2017, 2016 and 2015, as well as the assumptions utilized in determining such values, is presented below.

	2017 Performance-Based Vesting	Service-Based Vesting		
Grant date fair value	$26.27	$ 25.35	to	$ 26.00
Market price on grant date	$27.90	$ 27.50	to	$ 28.15
Expected annual dividend	$.56			$.56
Expected term (in years)	3.0	3.0	to	4.0
Risk-free interest rate	1.49%	1.60%	to	1.67%
	2016			
Grant date fair value	$18.17	$ 18.17	to	$ 22.17
Market price on grant date	$18.17	$ 18.17	to	$ 22.17
	2015			
Grant date fair value	$14.12	$ 15.61	to	$ 16.94
Market price on grant date	$15.63	$ 17.13	to	$ 18.51
Expected annual dividend	$.51	$.51	to	$.53
Expected term (in years)	3.0			3.0
Risk-free interest rate	.21%	.28%	to	.38%

In January 2018, 72,128 RSUs were awarded under the 2014 Plan, including 32,840 performance-based RSUs and 39,288 service-based RSUs.

The following table presents a summary of RSUs outstanding at December 31, 2017 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, 2017	245,010	$ 16.52		
Granted	94,329	26.24		
Converted	(65,205)	17.48		
Outstanding at December 31, 2017	274,134	$ 19.64	0.94	$ 7,813
Vested and Convertible at December 31, 2017	86,532	$ 14.12	—	$ 2,466

The performance-based RSUs granted in 2017 have a maximum payout potential of 1.25 shares of the Corporation's common stock for each RSU awarded. All other RSUs outstanding at December 31, 2017 have a maximum payout potential of one share of the Corporation's common stock for each RSU awarded. RSUs outstanding at December 31, 2017 include 86,532 RSUs that were vested and convertible into common stock at year-end and 187,602 RSUs that are currently expected to vest and become convertible in the future. The total intrinsic value of RSUs converted in 2017, 2016 and 2015 was $1,779,000, $1,445,000 and $965,000, respectively.

2006 Plan. The 2006 Plan was approved by the stockholders of the Corporation on April 18, 2006. 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. 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 in 2012, equity grants under the 2006 Plan consisted solely of RSUs. Stock options granted under the 2006 Plan have a five year vesting period and a ten year term.

Fair Value of Stock Options. The grant date fair value of options 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.

Stock Option Activity. The following table presents a summary of options outstanding at December 31, 2017 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, 2017	257,262	$ 10.61		
Exercised	(97,455)	9.41		
Outstanding at December 31, 2017	159,807	$ 11.35	2.08	$ 2,741
Exercisable at December 31, 2017	159,357	$ 11.33	2.07	$ 2,736

All options outstanding at December 31, 2017 are either fully vested or expected to vest. The total intrinsic value of options exercised in 2017, 2016 and 2015 was $1,833,000, $853,000 and $602,000, respectively.

Compensation Expense. The Corporation recorded compensation expense for share-based payments of $2,434,000, $1,517,000 and $1,319,000 in 2017, 2016 and 2015, respectively, and related income tax benefits of $1,019,000, $637,000 and $543,000, respectively.

Unrecognized Compensation Cost. As of December 31, 2017, there was $1,408,000 of total unrecognized compensation cost related to non-vested equity awards comprised of $2,000 for options and $1,406,000 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 2.43 years and 1.49 years for options and RSUs, respectively.

Cash Received and Tax Benefits Realized. Cash received from option exercises in 2017, 2016 and 2015, was $917,000, $906,000 and $707,000, respectively. Tax benefits from stock option exercises were $767,000, $356,000 and $240,000 in 2017, 2016 and 2015, respectively.

Other. No cash was used to settle stock options in 2017, 2016 or 2015. The Corporation uses newly issued shares to settle stock option exercises and for the conversion of RSUs. During 2017, 2,060 shares of the Corporation's common stock were issued to a member of the Board of Directors in payment of director fees.

NOTE J – 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. The Bank's expense for matching contributions was $441,000, $396,000 and $397,000 for 2017, 2016 and 2015, respectively.

The Bank has a defined benefit pension plan ("Pension Plan" or "Plan"). An internal management committee (the "Committee") oversees the affairs of the Plan and acts as named fiduciary. The Committee has retained Vanguard Group, Inc., including its subsidiaries and affiliates ("Vanguard"), to act as discretionary investment agent, trustee and custodian for the Plan. Vanguard has formulated investment recommendations customized to meet the Committee's objectives and, after approval by the Committee, such investment recommendations are incorporated into the investment guidelines and policies contained in the investment management agreement between the Bank and Vanguard (the "Investment Management Agreement"). The Committee adopted a formal Investment Policy Statement which includes, among other things, the investment guidelines and policies contained in the Investment Management Agreement. The Investment Policy Statement is periodically revised by the Committee as deemed appropriate.

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 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, 2017, 2016 and 2015 and the benefit cost for each of the Plan years then ended.

	2017	2016	2015
Weighted average assumptions used to determine the benefit obligation at year end:			
Discount rate	3.93%	4.40%	4.54%
Rate of increase in compensation levels	3.50%	3.50%	3.50%
Weighted average assumptions used to determine net pension cost:			
Discount rate	4.40%	4.54%	4.02%
Rate of increase in compensation levels	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets	5.50%	6.00%	6.00%

The decrease in the discount rate from 4.40% in 2016 to 3.93% in 2017 increased the projected benefit obligation at December 31, 2017 by approximately $2,377,000. In calculating the benefit obligation at December 31, 2017, the mortality table previously utilized, RP-2014 Healthy Annuitant/Employee Mortality Table with Projection Scale MP-2016, was adjusted to reflect Scale MP-2017. The updated mortality table decreased the projected benefit obligation at December 31, 2017 by approximately $277,000.

The decrease in the discount rate from 4.54% in 2015 to 4.40% in 2016 increased the projected benefit obligation at December 31, 2016 by $643,000. In calculating the benefit obligation at December 31, 2016, the mortality table previously utilized, RP-2014 Healthy Annuitant/Employee Mortality Table with Projection Scale MP-2015, was adjusted to reflect Scale MP-2016. The updated mortality table decreased the projected benefit obligation at December 31, 2016 by approximately $536,000. In addition, a change in the withdrawal/ turnover assumption from the T-3 table of the Pension Actuary’s Handbook to the 2003 SOA Pension Plan Turnover Table decreased the projected benefit obligation at December 31, 2016 by $157,000.

The increase in the discount rate from 4.02% in 2014 to 4.54% in 2015 decreased the projected benefit obligation at December 31, 2015 by $2,915,000. In calculating the benefit obligation at December 31, 2015, the mortality table was changed from RP-2014 Healthy Annuitant/Employee Mortality Table with Projection Scale MP-2014 to reflect Scale MP-2015. The updated mortality table decreased the projected benefit obligation at December 31, 2015 by approximately $270,000.

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

(in thousands)	2017	2016	2015
Service cost plus expected expenses and net of expected plan participant contributions	$ 1,214	$ 1,142	$ 1,189
Interest cost	1,590	1,584	1,408
Expected return on plan assets	(2,940)	(2,953)	(3,086)
Amortization of net actuarial loss	18	244	—
Net pension cost (credit)	$ (118)	$ 17	$ (489)

No portion of the net actuarial loss for the defined benefit plan will be amortized from accumulated other comprehensive income into net periodic pension cost in 2018. Prior service cost was fully amortized from accumulated other comprehensive income into net periodic pension cost as of December 31, 2014.

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.

(in thousands)	2017	2016	2015
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$ 37,016	$ 35,684	$ 35,787
Service cost	1,386	1,283	1,267
Interest cost	1,590	1,584	1,408
Benefits paid	(1,510)	(1,364)	(1,288)
Assumption changes	2,100	(50)	(3,185)
Experience loss (gain) and other	802	(121)	1,695
Projected benefit obligation at end of year	41,384	37,016	35,684

Change in fair value of plan assets:			
Fair value of plan assets at beginning of year	54,332	50,021	52,208
Actual return on plan assets	7,497	3,919	(1,071)
Employer contributions	—	1,553	—
Plan participant contributions	321	301	270
Benefits paid	(1,510)	(1,365)	(1,288)
Expenses	(104)	(97)	(98)
Fair value of plan assets at end of year	60,536	54,332	50,021
Funded status at end of year	$ 19,152	$ 17,316	$ 14,337
Accumulated benefit obligation	$ 38,544	$ 34,451	$ 32,716

During 2017, the Bank did not make a contribution into the Plan and the Bank has no minimum required pension contribution for the Plan year ending September 30, 2018. The Bank cannot make a tax-deductible contribution for the tax year beginning January 1, 2018.

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.

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, 2017 and 2016 are set forth in the tables that follow.

	December 31, 2017		
	Target Allocation	Percentage of Plan Assets	Weighted Average Expected Long-term Rates of Return
Cash equivalents	0% - 1%	.2%	<1.00%
Equity mutual funds	15% - 25%	20.1%	6.2% to 8.4%
Fixed income mutual funds	75% - 85%	79.7%	3.4% to 4.4%
		100.0%	4.5% to 5.5%
	December 31, 2016		
Cash equivalents	0% - 1%	.2%	<1.00%
Equity mutual funds	15% - 25%	19.8%	5.4% to 11.4%
Fixed income mutual funds	75% - 85%	80.0%	3.2% to 4.2%
		100.0%	3.6% to 5.6%

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 table represent expected 25th to 75th 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, 2017, 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.

Fair Value of Plan Assets. The fair value of the Plan assets at December 31, 2017 and 2016, by asset category, is summarized below.

(in thousands)	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Cash equivalents:				
Vanguard Prime Money Market Mutual Fund	$ 117	$ —	$ 117	$ —
Total cash equivalents	117	—	117	—
Equity mutual funds:				
Vanguard Total Stock Market Index Fund (VITSX)	6,658	6,658	—	—
Vanguard Total International Stock Index Fund (VTSNX)	5,479	5,479	—	—
Total equity mutual funds	12,137	12,137	—	—
Fixed income mutual funds:				
Vanguard Long-Term Investment Grade Fund (VWETX)	29,065	29,065	—	—
Vanguard Long-Term Bond Index Fund (VBLLX)	19,217	19,217	—	—
Total fixed income mutual funds	48,282	48,282	—	—
Total Plan Assets	$ 60,536	$ 60,419	$ 117	$ —
December 31, 2016:				
Cash equivalents:				
Vanguard Prime Money Market Mutual Fund	$ 107	$ —	$ 107	$ —
Total cash equivalents	107	—	107	—
Equity mutual funds:				
Vanguard Total Stock Market Index Fund (VITSX)	5,997	5,997	—	—
Vanguard Total International Stock Index Fund (VTSNX)	4,777	4,777	—	—

Total equity mutual funds	10,774	10,774	—	—
Fixed income mutual funds:				
Vanguard Long-Term Investment Grade Fund (VWETX)	26,075	26,075	—	—
Vanguard Long-Term Bond Index Fund (VBLLX)	17,376	17,376	—	—
Total fixed income mutual funds	43,451	43,451	—	—
Total Plan Assets	$ 54,332	$ 54,225	$ 107	$ —

The fair values of the Vanguard mutual funds represent their net asset values ("NAV") at December 31, 2017 and 2016. 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 M – Fair Value of Financial Instruments" to these consolidated financial statements.

At both December 31, 2017 and 2016, the Plan's cash and cash equivalents amounted to .2% of the Plan's total assets and represented investments in the Vanguard Prime Money Market Mutual Fund.

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

Year (dollars in thousands)	Amount
2018	$ 1,777
2019	1,859
2020	2,036
2021	2,155
2022	2,329
2023 - 2027	13,480

The Bank's Supplemental Executive Retirement Plan ("SERP") currently covers the Bank's Chief Executive Officer ("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 $31,000, $197,000 and $271,000 in 2017, 2016 and 2015, respectively.

NOTE K – 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:

(in thousands)	2017	2016	2015
Computer services	$ 1,888	$ 2,631	$ 2,212
Marketing	1,442	1,053	877
FDIC assessment	1,178	1,379	1,472
Consultants	702	1,337	576

NOTE L – 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, 2017 and 2016, financial instruments whose contract amounts represent credit risk are as follows:

	2017		2016	
(in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 90,635	$ 227,385	$ 67,289	$ 264,404
Standby letters of credit	4,244	—	5,596	—

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, small business and commercial lines of credit are a large 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 lines of credit, 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 and small business lines generally have a three-year term. Other real estate loan commitments generally expire within 60 days and commercial loan commitments generally expire within one year. At December 31, 2017, the Bank's fixed rate loan commitments are to make loans with interest rates ranging from 3.50% to 4.75% and maturities of ten years or more. 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 April 2019. 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, 2017 varied from 0% to 100% of the contractual notional amount of each instrument, with the average amount of collateral totaling 96% of the aggregate outstanding notional amount. Standby letters of credit are considered financial guarantees and are recorded at fair value.

Employment Agreements. At December 31, 2017, the chief executive officer, senior executive vice president and the Corporation's other executive vice presidents, collectively referred to as the senior executives, had employment agreements with the Corporation under which they are entitled to severance compensation in the event that their employment is terminated without cause or they terminate their employment following an event constituting Good Reason, as defined. The chief executive officer's contract has a term of three (3) years beginning January 1, 2017 and can be extended at the option of the Board of Directors of the Corporation (the "Board") for an additional period of one year. The other senior executives have contracts with a term of two (2) years beginning January 1, 2017. Except for one of these two-year contracts, these contracts automatically renew for an additional period of one year on each anniversary date unless the Corporation gives written notice of non-renewal at least thirty (30) days prior to such date. The one two-year contract that does not automatically renew, can be extended at the option of the Board for an additional period of one year. Notwithstanding the foregoing, each of the automatically renewing two-year contracts will expire on December 31 of the calendar year in which the senior executive attains normal retirement age, which for these purposes is age 65. Pursuant to their terms, the Corporation can elect to extend these agreements for an additional period of two years. The current aggregate annual salaries provided for in these contracts is $2,398,000.

Lease Commitments. At December 31, 2017, minimum annual rental commitments under non-cancelable operating leases are as follows:

Year (dollars in thousands)	Amount
2018	$ 2,763
2019	2,749
2020	2,615
2021	2,500
2022	2,447
Thereafter	8,046
	$ 21,120

The Bank has various renewal options on the above leases. Rent expense, including amounts paid for real estate taxes and common area maintenance, was $2,466,000, $2,085,000 and $1,885,000 in 2017, 2016 and 2015, 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, 2022 and December 31, 2019 with options to renew. The Bank expects to renew both leases prior to their expiration. Aggregate base rent expense for these leases, plus a proportionate share of real estate taxes on one of the leased properties, amounted to approximately $78,000 for each of the years ending December 31, 2017, 2016 and 2015. The Corporation believes that the terms of the leases are comparable to competitive 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 M – 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 2017 or 2016.

The fair values of the Corporation's investment securities designated as available-for-sale at December 31, 2017 and 2016 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.

		Fair Value Measurements Using:		
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities:				
December 31, 2017:				
State and municipals	$ 461,323	$ —	$ 461,323	$ —
Pass-through mortgage securities	71,391	—	71,391	—
Collateralized mortgage obligations	187,414	—	187,414	—
	$ 720,128	$ —	$ 720,128	$ —
December 31, 2016:				
State and municipals	$ 450,660	$ —	$ 450,660	$ —
Pass-through mortgage securities	185,809	—	185,809	—
Collateralized mortgage obligations	178,830	—	178,830	—
	$ 815,299	$ —	$ 815,299	$ —

Assets measured at fair value on a nonrecurring basis at December 31, 2017 and 2016, are set forth in the table that follows. Real estate appraisals utilized in measuring the fair value of other real estate and 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 when appropriate. 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 and other real estate owned. Because the Corporation has a small amount of impaired loans and other real estate owned measured at fair value, the impact of unobservable inputs on the Corporation's financial statements is not material.

		Fair Value Measurements Using:		
(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Other real estate owned	$ 5,125	$ —	$ —	$ 5,125
December 31, 2016:				
Impaired loans:				
Residential mortgages - closed end	$ 1,009	$ —	$ —	$ 1,009

The other real estate owned in the preceding table is one commercial real estate property acquired by deed-in-lieu of foreclosure at a fair value of $5,850,000 in the fourth quarter of 2017. A valuation allowance of $725,000 was subsequently recorded and is included in other noninterest expense in the consolidated statements of income for the year ended December 31, 2017. The Bank sold the property for its carrying value in the first quarter of 2018.

The impaired loan set forth in the preceding table had a principal balance of $1,491,000 at December 31, 2016 and a valuation allowance of $482,000. During the years ended December 31, 2017, 2016 and 2015, the Corporation recorded provisions (credit) for loan losses of ($482,000), $449,000 and $27,000, respectively, for impaired loans measured at fair value.

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.

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, 2017 and 2016.

		December 31, 2017		December 31, 2016	
(in thousands)	Level of Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:					
Cash and cash equivalents	Level 1	$ 69,672	$ 69,672	$ 36,929	$ 36,929
Held-to-maturity securities	Level 2	5,030	5,143	9,904	10,154
Held-to-maturity securities	Level 3	2,606	2,606	1,483	1,483
Loans	Level 3	2,916,568	2,855,812	2,514,355	2,472,849
Restricted stock	Level 1	37,314	37,314	31,763	31,763
Accrued interest receivable:					
Investment securities	Level 2	4,189	4,189	4,564	4,564
Loans	Level 3	7,386	7,386	6,418	6,418
Financial Liabilities:					
Checking deposits	Level 1	896,129	896,129	808,311	808,311
Savings, NOW and money market deposits	Level 1	1,602,460	1,602,460	1,519,749	1,519,749
Time deposits	Level 2	323,408	323,108	280,657	282,024
Short-term borrowings	Level 1	281,141	281,141	207,012	207,012
Long-term debt	Level 2	423,797	418,465	379,212	375,003
Accrued interest payable:					
Checking, savings, NOW and money market deposits	Level 1	176	176	160	160
Time deposits	Level 2	59	59	25	25
Short-term borrowings	Level 1	34	34	8	8
Long-term debt	Level 2	677	677	590	590

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) 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 FHLB stock and FRB 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 FHLB.

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 FHLB.

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.

NOTE N – PARENT COMPANY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31,	
(in thousands)	2017	2016
Assets:		
Cash and due from banks	$ 925	$ 1,372
Investment in subsidiary bank, at equity	354,334	306,107
Prepaid income taxes	1,552	123
Deferred income tax benefits	1,381	1,548
Other assets	81	68
	$ 358,273	$ 309,218
Liabilities:		
Other liabilities	$ 25	$ 20
Cash dividends payable	3,798	3,368
	3,823	3,388
Stockholders' equity:		
Common stock	2,467	2,370
Surplus	127,122	101,738
Retained earnings	224,315	203,326

	353,904	307,434
Accumulated other comprehensive income (loss), net of tax	546	(1,604)
	354,450	305,830
	$ 358,273	$ 309,218

CONDENSED STATEMENTS OF INCOME

	Year ended December 31,		
(in thousands)	2017	2016	2015
Income:			
Dividends from subsidiary bank	$ 11,150	$ 4,500	$ 7,500
Expenses:			
Salaries	2,434	1,517	1,319
Other operating expenses	406	376	541
	2,840	1,893	1,860
Income before income taxes	8,310	2,607	5,640
Income tax benefit	(1,235)	(1,181)	(832)
Income before undistributed earnings of subsidiary bank	9,545	3,788	6,472
Equity in undistributed earnings	25,577	27,092	19,418
Net income	$ 35,122	$ 30,880	$ 25,890
Comprehensive income	$ 37,272	$ 21,752	$ 22,629

CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
(in thousands)	2017	2016	2015
Cash Flows From Operating Activities:			
Net income	$ 35,122	$ 30,880	$ 25,890
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiary bank	(25,577)	(27,092)	(19,418)
Deferred income tax provision (credit)	167	(84)	(278)
Tax benefit of stock-based compensation	—	—	336
Stock-based compensation expense	2,434	1,517	1,319
(Increase) decrease in prepaid income taxes	(1,429)	596	(362)
(Increase) decrease in other assets	46	(64)	38
Increase (decrease) in other liabilities	5	(19)	39
Net cash provided by operating activities	10,768	5,734	7,564
Cash Flows From Investing Activities:			
Capital contributions to Bank subsidiary	(20,500)	(38,883)	—
Cash Flows From Financing Activities:			
Shares withheld upon the vesting and conversion of RSUs	(527)	(370)	(287)
Proceeds from exercise of stock options	917	906	707
Proceeds from issuance of common stock, net	22,598	43,712	3,870
Cash dividends paid	(13,703)	(12,078)	(10,759)
Net cash provided by (used in) financing activities	9,285	32,170	(6,469)
Net increase (decrease) in cash and cash equivalents*	(447)	(979)	1,095
Cash and cash equivalents, beginning of year	1,372	2,351	1,256
Cash and cash equivalents, end of year	$ 925	$ 1,372	$ 2,351
Supplemental Schedule of Noncash Financing Activities:			
Cash dividends payable	$ 3,798	$ 3,368	$ 2,823

* 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.

NOTE O – QUARTERLY FINANCIAL DATA (Unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2017					
Interest income	$ 28,498	$ 28,970	$ 30,337	$ 30,460	$ 118,265
Interest expense	4,838	5,177	5,634	6,060	21,709
Net interest income	23,660	23,793	24,703	24,400	96,556
Provision for loan losses	788	1,293	1,122	1,651	4,854
Noninterest income before net securities gains (losses)	2,063	2,348	2,151	2,133	8,695
Net gains (losses) on sales of securities	57	1	16	(1,940)	(1,866)
Noninterest expense	13,014	13,135	13,061	14,310	53,520
Income before income taxes	11,978	11,714	12,687	8,632	45,011
Income tax expense (1)	2,897	2,581	3,345	1,066	9,889
Net income	9,081	9,133	9,342	7,566	35,122
Earnings per share:					
Basic	.38	.38	.38	.31	1.44
Diluted	.38	.37	.38	.30	1.43
Comprehensive income	9,705	11,619	9,009	6,939	37,272
2016					
Interest income	$ 25,107	$ 25,681	$ 26,232	$ 27,103	$ 104,123
Interest expense	4,406	4,408	4,541	4,647	18,002
Net interest income	20,701	21,273	21,691	22,456	86,121
Provision for loan losses	253	139	1,118	1,970	3,480
Noninterest income before net securities gains	1,754	1,887	1,990	1,880	7,511
Net gains on sales of securities	—	1,844	24	—	1,868
Noninterest expense before debt extinguishment costs	12,431	13,116	11,974	12,814	50,335
Debt extinguishment costs	—	1,756	—	—	1,756
Income before income taxes	9,771	9,993	10,613	9,552	39,929
Income tax expense	2,136	2,264	2,615	2,034	9,049
Net income	7,635	7,729	7,998	7,518	30,880
Earnings per share:					
Basic	.36	.34	.34	.32	1.35
Diluted	.35	.34	.34	.31	1.34
Comprehensive income (loss)	10,566	10,966	5,012	(4,792)	21,752

(1) The fourth quarter of 2017 includes a $909,000 credit to income tax expense resulting from a reduction in the Corporation’s net deferred tax liability to reflect the recent changes in federal tax law.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of

The First of Long Island Corporation

Glen Head, New York

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The First of Long Island Corporation (“the Company”) as of December 31, 2017 and 2016, 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, 2017, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework:(2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework:(2013) issued by COSO.

Basis for Opinions

The Company’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 the Company’s financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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 financial statements.

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.

/s/ CROWE HORWATH LLP

Crowe Horwath LLP

We have served as the Company’s auditor since 2003.

New York, New York

March 16, 2018

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL 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, 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 Internal Control - Integrated Framework:(2013) 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, 2017, based on the criteria established in Internal Control - Integrated Framework:(2013) issued by COSO. Based on the assessment, management determined that, as of December 31, 2017, 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, 2017 in their report which appears on page 71.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fourth quarter of 2017 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

The information regarding directors, executive officers and corporate governance is incorporated herein by reference to the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 17, 2018 that was filed with the SEC.

The Corporation has adopted a code of ethics that applies to its principal executive officer, principal financial officer, chief risk officer, chief accounting officer, 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 and click on "Investor Relations," and then click on "Code of Ethics."

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive compensation is incorporated herein by reference to the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 17, 2018 that was filed with the SEC.

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

The information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference to the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 17, 2018 that was filed with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 17, 2018 that was filed with the SEC.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information regarding principal accountant fees and services is incorporated herein by reference to the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 17, 2018 that was filed with the SEC.

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.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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 April 25, 2017)
3(iii)	Certificate of Amendment of Certificate of Incorporation dated May 1, 2014
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	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 16, 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)
10.3	Employment Agreement between Registrant and Michael N. Vittorio (incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed April 7, 2017)
10.4	Employment Agreement between Registrant and Donald L. Manfredonia (incorporated by reference to Exhibit 10.3 of Registrant’s Form 8-K filed September 11, 2017)
10.5	Employment Agreement between Registrant and Richard Kick (incorporated by reference to Exhibit 10.2 of Registrant’s Form 8-K filed September 11, 2017)
10.6	Employment Agreement between Registrant and Mark D. Curtis (incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed September 11, 2017)
10.7	Employment Agreement between Registrant and Christopher Becker, Executive Vice President
10.8	Employment Agreement between Registrant and Paul Daley, Executive Vice President
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	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)
10.11	The First of Long Island Corporation 2016 Cash Incentive Plan (incorporated by reference to Appendix A of Registrant’s Proxy Statement filed March 15, 2016)
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, 2017, 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 l3 or l5(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, 2018	By /s/ MICHAEL N. VITTORIO MICHAEL N. VITTORIO, President & Chief Executive Officer (principal executive officer)
	By /s/ MARK D. CURTIS MARK D. CURTIS, Senior Executive Vice President, Chief Financial Officer & Treasurer (principal financial officer)
	By /s/ WILLIAM APRIGLIANO WILLIAM APRIGLIANO, Senior Vice President & Chief Accounting Officer (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.

Signatures	Titles	Date
/s/ WALTER C. TEAGLE III Walter C. Teagle III	Non executive Chairman of the Board	March 16, 2018
/s/ PAUL T. CANARICK Paul T. Canarick	Director	March 16, 2018
/s/ ALEXANDER L. COVER Alexander L. Cover	Director	March 16, 2018

/s/ JOHN J. DESMOND John J. Desmond	Director	March 16, 2018
/s/ HOWARD THOMAS HOGAN JR. Howard Thomas Hogan Jr.	Director	March 16, 2018
/s/ STEPHEN V. MURPHY Stephen V. Murphy	Director	March 16, 2018
/s/ PETER QUICK Peter Quick	Director	March 16, 2018
/s/ DENISE STRAIN Denise Strain	Director	March 16, 2018
/s/ MILBREY RENNIE TAYLOR Milbrey Rennie Taylor	Director	March 16, 2018
/s/ ERIC TVETER Eric Tveter	Director	March 16, 2018
/s/ MICHAEL N. VITTORIO Michael N. Vittorio	Director	March 16, 2018