GUINAN MARK
Form 4
May 29, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
GUINAN MARK

(Last) (First) (Middle)

500 PLAZA DRIVE

(Street)

SECAUCUS, NJ 07094

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
QUEST DIAGNOSTICS INC [DGX]

3. Date of Earliest Transaction (Month/Day/Year)
05/25/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/25/2018		M (1)		61,533	A	$ 58.365	119,733	D	
Common Stock	05/25/2018		S (1)		36,573	D	$ 105.418 (2)	83,160	D	
Common Stock	05/25/2018		S (1)		24,960	D	$ 106.139 (3)	58,200	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not SEC 1474 (9-02)

required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8 D S (
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Options (Right to Buy)	$ 58.365	05/25/2018		M(1)			61,533	(4)	08/19/2023	Common Stock	61,533	S

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GUINAN MARK 500 PLAZA DRIVE SECAUCUS, NJ 07094			Executive Vice President & CFO	

Signatures

/s/ William J. O'Shaughnessy, Jr., attorney-in-fact for Mark J. Guinan	05/29/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This exercise and sale reported were effected pursuant to a Rule 10b5-1 sales plan adopted by the reporting person on February 22, 2018.

(2) This transaction was executed in multiple trades at prices ranging from $105.00 to $105.98. The price reported above reflects the weighted average sale price. The reporting person hereby undertakes to provide upon request to the SEC staff, the issuer or a security holder of the issuer full information regarding the number of shares and prices at which the transaction was effected.

(3) This transaction was executed in multiple trades at prices ranging from $106.00 to $106.62. The price reported above reflects the weighted average sale price. The reporting person hereby undertakes to provide upon request to the SEC staff, the issuer or a security holder of the issuer full information regarding the number of shares and prices at which the transaction was effected.

(4) The options vested in three equal annual installments beginning with the first on August 19, 2014, the second on August 19, 2015 and the final on August 19, 2016.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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)

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 (1)							
	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 %

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 %

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

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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, 2014		2013		2012		2011		2010	
	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	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 (%) (1)	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

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

The 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 at December 31, 2014 Amount	Percent Change From Base Case	for 2015 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 othe 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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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

C O N S O L I D A T E D B A L A N C E S H E E T S

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	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
	$2,721,494	$2,399,892

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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

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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

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)	Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2014	2013	2012
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:			
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
Cash Flows From Investing Activities:			
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)
Cash Flows From Financing Activities:			
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)

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

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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					
	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	$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 Cost	Fair Value