TrueBlue, Inc.
Form 4
April 28, 2010

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
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Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MCKIBBIN GATES
(Last) (First) (Middle)
1015 A STREET, P.O. BOX 2910
(Street)
TACOMA, WA 98402
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TrueBlue, Inc. [TBI]

3. Date of Earliest Transaction (Month/Day/Year)
04/26/2010

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

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	04/26/2010		S		3,000	D	$ 16.94 (1)	20,697	D	

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

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SEC 1474 (9-02)

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. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MCKIBBIN GATES 1015 A STREET P.O. BOX 2910 TACOMA, WA 98402	X			

Signatures

Todd N. Gilman, Attorney-in-fact	04/28/2010
**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 transaction was executed in multiple trades at prices ranging from $16.92 to $16.95. The price reported above reflects the weighted average sales price. The reporting person hereby undertakes to provide upon request to the SEC staff, the issuer or a security holder of the issuer the detailed information regarding the number of shares sold at each separate price.

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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Service charges on deposit accounts
3,053 3,186 3,465
Net gains on sales of available-for-sale securities
3,613 138 1,719
Other
1,898 1,563 1,284 10,188 6,426 7,933
Noninterest expense:

Salaries
16,360 15,785 15,458
Employee benefits

5,035 5,066 5,303
Occupancy and equipment
7,265 7,148 6,486
Debt extinguishment
3,812 - -
Other operating
8,780 8,710 8,579 41,252 36,709 35,826
Income before income taxes
25,410 24,401 23,763
Income tax expense
5,017 4,944 5,371
Net Income
$20,393 $19,457 $18,392
Weighted average:

Common shares
8,915,226 8,761,895 7,899,241
Dilutive stock options and restricted stock units
85,541 93,069 108,436 9,000,767 8,854,964 8,007,677
Earnings per share:

Basic
$2.29 $2.22 $2.33
Diluted
$2.27 $2.20 $2.30
Cash dividends declared per share
$.96 $.90 $.84

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (dollars in thousands)	2012	2011	2010
Net income	$20,393	$19,457	$18,392
Other comprehensive income (loss):			
Net unrealized gains (losses) on available-for-sale securities	(1,011)	34,851	(7,768)
Change in funded status of pension plan	(561)	(3,172)	(633)
Other comprehensive income (loss) before income taxes	(1,572)	31,679	(8,401)
Income tax expense (benefit)	(624)	12,575	(3,334)
Other comprehensive income (loss)	(948)	19,104	(5,067)
Comprehensive Income	$19,445	$38,561	$13,325

See notes to consolidated financial statements

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2010	7,213,056	$721	$2,043	$110,047	$ 3,651	$116,462
Net income				18,392		18,392
Other comprehensive (loss)					(5,067)	(5,067)
Repurchase of common stock	(3,581)		(91)			(91)
Common stock issued under stock compensation plans, including tax benefit	60,690	6	709			715
Issuance of common stock	1,437,500	144	32,218			32,362
Stock-based compensation			647			647
Cash dividend declared				(6,726)		(6,726)
Balance, December 31, 2010	8,707,665	871	35,526	121,713	(1,416)	156,694
Net income				19,457		19,457
Other comprehensive income					19,104	19,104
Repurchase of common stock	(7,022)	(1)	(184)			(185)
Common stock issued under stock compensation plans, including tax benefit	93,289	9	1,409			1,418
Stock-based compensation			756			756
Cash dividend declared				(7,897)		(7,897)
Balance, December 31, 2011	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 dividend declared				(8,579)		(8,579)
Balance, December 31, 2012	9,001,686	$900	$42,643	$145,087	$ 16,740	$205,370

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (dollars in thousands)	2012	2011	2010
Cash Flows From Operating Activities:			
Net income	$20,393	$19,457	$18,392
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,628	4,061	3,973
Loss (gains) on loans held-for-sale	(28)	75	300
Deferred income tax provision (credit)	2,835	743	(612)
Depreciation and amortization	2,816	2,667	2,487
Premium amortization on investment securities, net	8,981	5,396	4,078
Net gains on sales of available-for-sale securities	(3,613)	(138)	(1,719)
Loss on extinguishment of debt	3,812	-	-
Gain on sale of bank premises and equipment	-	-	(154)
Stock-based compensation expense	782	756	647
Accretion of cash surrender value on bank-owned life insurance	(500)	(502)	(496)
Decrease in prepaid FDIC assessment	915	1,022	1,539
Pension plan contribution in excess of expense	(5,328)	(3,436)	(2,800)
Increase in other assets	(227)	(1,979)	(350)
Increase in accrued expenses and other liabilities	555	1,439	1,326
Net cash provided by operating activities	35,021	29,561	26,611
Cash Flows From Investing Activities:			
Proceeds from sales of available-for-sale securities	102,687	4,610	78,504
Proceeds from maturities and redemptions of investment securities:			
Held-to-maturity	18,427	25,073	43,103
Available-for-sale	136,518	122,620	141,973
Purchase of investment securities:			
Held-to-maturity	(400)	(472)	(596)
Available-for-sale	(169,171)	(338,586)	(245,031)
Proceeds from sales of loans held-for-sale	928	1,535	-
Net increase in loans to customers	(164,000)	(85,013)	(76,898)
Net decrease (increase) in restricted stock	(820)	(4,129)	194
Purchase of bank premises and equipment, net	(5,570)	(3,634)	(5,086)
Net cash used in investing activities	(81,401)	(277,996)	(63,837)
Cash Flows From Financing Activities:			
Net increase in total deposits	130,208	209,930	15,388
Net increase (decrease) in short-term borrowings	1,407	40,637	(49,817)
Proceeds from long-term debt	62,500	27,500	30,000
Repayment of long-term debt	(128,812)	(12,000)	-
Proceeds from issuance of common stock	2,006	-	32,362
Proceeds from exercise of stock options	2,603	1,279	676
Tax benefit of stock compensation plans	135	139	39
Repurchase and retirement of common stock	(369)	(185)	(91)
Cash dividends paid	(10,602)	(7,790)	(6,253)
Net cash provided by financing activities	59,076	259,510	22,304

Net increase (decrease) in cash and cash equivalents	12,696	11,075	(14,922)
Cash and cash equivalents, beginning of year	29,495	18,420	33,342
Cash and cash equivalents, end of year	$42,191	$29,495	$18,420
Supplemental Information:			
Cash paid for:			
Interest	$15,378	$16,397	$15,767
Income taxes	2,874	4,116	6,178
Noncash investing and financing activities:			
Cash dividends payable	-	2,022	1,916
Loans transferred from portfolio to held-for-sale	900	610	1,300

See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and Cash Equivalents

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

Investment Securities

Current accounting standards require that investment securities be classified as held-to-maturity, trading or available-for-sale. 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 of purchase premium or discount. Premiums and discounts on securities are amortized 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 amortized 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, which is 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.

Estimated losses for loans that are not individually deemed to be impaired are determined on a pooled basis using the Bank's historical loss experience. The time period utilized in determining historical losses is currently 24 months, but varies from time-to-time based on, among other things, the economic cycle. Loan pools include; commercial and industrial loans; owner occupied commercial mortgages; multifamily commercial mortgages; other commercial mortgages; residential mortgages; home equity lines; and consumer loans. Risk ratings and a variety of credit metrics are used to adjust historical losses to current conditions for each pool. Management utilizes a ten point risk rating system for commercial and industrial loans; owner occupied commercial mortgages; multifamily commercial mortgages; and other commercial mortgages. A three point risk rating system is used for residential mortgages; home equity lines; and consumer loans. Credit metrics used for the various pools include, but are not limited to, delinquencies, general economic conditions, local and national unemployment rates, commercial vacancies, trends in local median home prices, trends in the nature and volume of loans, compound average growth rates, changes in the mix of loans, concentrations of credit, changes in lending policies and procedures, changes in lending staff, changes in the loan review function and environmental factors including a general assessment of the legal, regulatory and competitive risks.

Other detailed information about the Bank's rating systems for the above pools of loans can be found in "Note C – Loans."

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.

Unless otherwise noted, the policies and methodologies described above relating to loans and the allowance for loan losses are consistently applied to all classes of loans.

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 improvements are depreciated using the straight-line method over the then remaining lives of the buildings or their estimated useful lives, whichever is shorter. Leasehold improvements are amortized using the straight-line method over the remaining lives of the leases 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 lower of its cash surrender value or the amount that can be realized.

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. Such financial 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

On July 20, 2010, the Corporation sold 1,437,500 shares of its common stock in an underwritten public offering at a price of $24 per share. The net proceeds of the offering, after the underwriting discount and offering expenses paid by the Corporation, were $32,362,000.

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 46,102, 95,119 and 44,594 anti-dilutive stock options at December 31, 2012, 2011 and 2010, respectively, and no anti-dilutive RSUs. 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 2012 on the line captioned "Repurchase of common stock" in the Consolidated Statement of Changes in Stockholders' Equity is comprised of 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. The amount shown for 2011 represents 1,897 shares with a value of $49,000 tendered upon the exercise of stock options and 5,125 shares with a value of $136,000 withheld upon the conversion of RSUs. The amount shown for 2010 represents 3,581 shares with a value of $91,000 withheld upon the conversion of RSUs.

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Stock-based Compensation

The Corporation has a stock-based compensation plan as more fully described in Note J. Compensation cost is recognized for stock options and 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. For RSUs, compensation expense is recognized over the 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. 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 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:

	2012	2011	2010
		(in thousands)	
Unrealized holding gains (losses) on available-for-sale securities:			
Change arising during period	$2,602	$34,989	$(6,049)
Reclassification adjustment for gains included in net income	(3,613)	(138)	(1,719)
Net unrealized gains (losses) on available-for-sale securities	(1,011)	34,851	(7,768)
Tax effect	(401)	13,834	(3,083)
	(610)	21,017	(4,685)
Change in funded status of pension plan:			
Unrecognized net loss arising during period	(1,248)	(3,461)	(978)
Amortization of prior service cost included in pension expense	23	23	23
Amortization of net actuarial loss included in pension expense	664	266	322
	(561)	(3,172)	(633)
Tax effect	(223)	(1,259)	(251)
	(338)	(1,913)	(382)
Other comprehensive income (loss)	$(948)	$19,104	$(5,067)

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

	Balance 12/31/11	Current Period Change	Balance 12/31/12

		(in thousands)	
Unrealized holding gains (losses) on available-for-sale securities	$23,330	$(610)	$22,720
Unrealized actuarial losses and prior service costs on pension plan	(5,642)	(338)	(5,980)
Total accumulated other comprehensive income	$17,688	$(948)	$16,740

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.

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Reclassifications

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

Adoption of New Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04 "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board on fair value measurement. The Boards have concluded that the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. For public entities like the Corporation, the amendments in ASU 2011-04, which need to be applied prospectively, became effective for interim and annual periods beginning in 2012. The adoption of ASU 2011-04 on January 1, 2012 resulted in the following disclosures included in "Note N – Fair Value of Financial Instruments" to the Corporation's consolidated financial statements:

1) For financial instruments that are not recorded at fair value in the Corporation's consolidated financial statements, the level of the fair value hierarchy within which the fair value measurement used for disclosure purposes falls;

2) For financial instruments recorded at fair value, quantitative information about the significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy;

3) The Corporation's policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred.

In June 2011, the FASB issued ASU 2011-05 "Comprehensive Income: Presentation of Comprehensive Income." The amendments in ASU 2011-05 give entities the option to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. For public entities like the Corporation, the amendments in ASU 2011-05, which need to be applied prospectively, became effective for interim and annual periods beginning in 2012. The adoption of ASU 2011-05 on January 1, 2012 resulted in the elimination of the presentation of the components of other comprehensive income in the Statement of Changes in Stockholders' Equity and the inclusion in the consolidated financial statements of a Statement of Comprehensive Income and the related disclosures included in this Note under the heading "Comprehensive Income."

Impact of 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 February 2013, the FASB issued ASU 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in ASU 2013-02 require entities like the Corporation to provide information on a quarterly and annual basis about significant reclassifications out of accumulated other comprehensive income. The information would be provided either on the face of the income statement or as a separate disclosure in the notes to the consolidated financial statements if the item reclassified is included in net income in its entirety in the period of reclassification. Such information would include the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income. Where a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account rather than directly to income or expense, the entity would be required to cross-reference to other disclosures that provide additional detail about that amount. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. For public entities, the amendments are effective prospectively for interim and annual reporting periods beginning after December 15, 2012. Early adoption is permitted.

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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, 2012 and 2011.

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:	(in thousands)			
State and municipals	$36,255	$2,182	$-	$38,437
Pass-through mortgage securities	3,782	342	-	4,124
Collateralized mortgage obligations	4,130	267	-	4,397
	$44,167	$2,791	$-	$46,958
Available-for-Sale Securities:				
State and municipals	$307,958	$24,703	$(148)	$332,513
Pass-through mortgage securities	82,863	2,093	-	84,956
Collateralized mortgage obligations	388,936	12,202	(1,173)	399,965
	$779,757	$38,998	$(1,321)	$817,434

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:	(in thousands)			
State and municipals	$43,091	$2,906	$-	$45,997
Pass-through mortgage securities	6,851	551	-	7,402
Collateralized mortgage obligations	12,143	535	-	12,678
	$62,085	$3,992	$-	$66,077
Available-for-Sale Securities:				
U.S. government agencies	$5,000	$113	$-	$5,113
State and municipals	292,662	20,580	(47)	313,195
Pass-through mortgage securities	68,060	5,726	-	73,786
Collateralized mortgage obligations	489,546	12,933	(617)	501,862
	$855,268	$39,352	$(664)	$893,956

At December 31, 2012 and 2011, investment securities with a carrying value of $245,365,000 and $290,658,000, 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, 2012 and 2011.

Securities With Unrealized Losses. The following tables set forth securities with unrealized losses at December 31, 2012 and 2011 presented by length of time the securities have been in a continuous unrealized loss position.

	2012					
	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	Value	Loss	Value	Loss	Value	Loss
	(in thousands)					
State and municipals	$12,765	$(148)	$-	$-	$12,765	$(148)
Collateralized mortgage obligations	92,674	(1,011)	6,170	(162)	98,844	(1,173)
Total temporarily impaired	$105,439	$(1,159)	$6,170	$(162)	$111,609	$(1,321)

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	2011					
	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	$6,176	$(47)	$-	$-	$6,176	$(47)
Collateralized mortgage obligations	66,357	(617)	-	-	66,357	(617)
Total temporarily impaired	$72,533	$(664)	$-	$-	$72,533	$(664)

Because the unrealized losses reflected in the preceding tables are 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, 2012.

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

	2012	2011	2010
		(in thousands)	
Proceeds	$ 102,687	$ 4,610	$ 78,504
Gains	$ 4,248	$ 138	$ 1,885
Losses	(635)	-	(166)
Net gains	$ 3,613	$ 138	$ 1,719

The tax provision related to these net realized gains was $1,434,000, $55,000 and $682,000 in 2012, 2011 and 2010, respectively.

Maturities. The following table sets forth by maturity the amortized cost and fair value of the Bank's state and municipal securities 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
Held-to-Maturity Securities:	(in thousands)	
Within one year	$ 5,840	$ 5,967
After 1 through 5 years	11,487	12,116
After 5 through 10 years	16,601	17,838
After 10 years	2,327	2,516
Mortgage-backed securities	7,912	8,521
	$ 44,167	$ 46,958
Available-for-Sale Securities:		
Within one year	$ 3,742	$ 3,820
After 1 through 5 years	12,954	13,786
After 5 through 10 years	32,945	34,590

After 10 years	258,317	280,317
Mortgage-backed securities	471,799	484,921
	$ 779,757	$ 817,434

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NOTE C – LOANS

The following tables set forth by class of loans as of December 31, 2012, 2011 and 2010: (1) the amount of loans individually evaluated for impairment and the portion of the allowance for loan losses allocable to such loans; and (2) the amount of loans collectively evaluated for impairment and the portion of the allowance for loan losses allocable to such loans. The tables also set forth by class of loans the activity in the allowance for loan losses for the years ended December 31, 2012, 2011 and 2010. Construction and land development loans, if any, are included with commercial mortgages in the following tables.

	2012							
		Commercial Mortgages			Residential Mortgages			
	Commercial & Industrial	Multifamily	Other	Owner Occupied	Closed End	Revolving Home Equity	Consumer	Total
	(in thousands)							
Loans:								
Individually evaluated for impairment	$48	$1,105	$1,773	$174	$5,028	$382	$-	$8,510
Collectively evaluated for impairment	54,291	276,772	140,179	83,716	494,407	80,742	4,335	1,134,442
	$54,339	$277,877	$141,952	$83,890	$499,435	$81,124	$4,335	$1,142,952
Allocation of allowance for loan losses:								
Individually evaluated for impairment	$-	$-	$-	$-	$567	$-	$-	$567
Collectively evaluated for impairment	834	5,342	1,978	1,163	7,162	1,453	125	18,057
	$834	$5,342	$1,978	$1,163	$7,729	$1,453	$125	$18,624
Activity in allowance for loan losses:								
Beginning balance	$699	$5,365	$2,316	$1,388	$5,228	$1,415	$161	$16,572
Chargeoffs	5	501	-	-	659	450	4	1,619
Recoveries	4	4	19	-	10	-	6	43
Provision for loan losses (credit)	136	474	(357)	(225)	3,150	488	(38)	3,628
Ending balance	$834	$5,342	$1,978	$1,163	$7,729	$1,453	$125	$18,624

					2011			
Loans:								
Individually evaluated for impairment	$12	$2,133	$1,816	$-	$4,548	$975	$-	$9,484
Collectively evaluated for impairment	42,560	227,160	138,813	89,953	380,826	89,641	4,596	973,549
	$42,572	$229,293	$140,629	$89,953	$385,374	$90,616	$4,596	$983,033
Allocation of allowance for loan losses:								
Individually evaluated for impairment	$1	$312	$45	$-	$676	$-	$-	$1,034
Collectively evaluated for impairment	698	5,053	2,271	1,388	4,552	1,415	161	15,538
	$699	$5,365	$2,316	$1,388	$5,228	$1,415	$161	$16,572
Activity in allowance for loan losses:								
Beginning balance	$803	$3,848	$2,303	$1,529	$4,059	$1,415	$57	$14,014
Chargeoffs	-	1,257	233	-	8	100	36	1,634
Recoveries	115	9	-	-	1	-	6	131
Provision for loan losses (credit)	(219)	2,765	246	(141)	1,176	100	134	4,061
Ending balance	$699	$5,365	$2,316	$1,388	$5,228	$1,415	$161	$16,572

	2010							
Loans:								
Individually evaluated for impairment	$27	$2,314	$-	$-	$945	$-	$-	$3,286
Collectively evaluated for impairment	39,028	205,785	125,461	83,386	344,344	93,308	5,790	897,102
	$39,055	$208,099	$125,461	$83,386	$345,289	$93,308	$5,790	$900,388
Allocation of allowance for loan losses:								
Individually evaluated for impairment	$27	$870	$-	$-	$-	$-	$-	$897
Collectively evaluated for impairment	776	2,978	2,303	1,529	4,059	1,415	57	13,117
	$803	$3,848	$2,303	$1,529	$4,059	$1,415	$57	$14,014
Activity in allowance for loan losses:								
Beginning balance	$971	$2,685	$1,687	$1,603	$2,242	$1,102	$56	$10,346
Chargeoffs	-	325	-	-	-	22	30	377
Recoveries	46	-	-	-	-	-	26	72
Provision for loan losses (credit)	(214)	1,488	616	(74)	1,817	335	5	3,973
Ending balance	$803	$3,848	$2,303	$1,529	$4,059	$1,415	$57	$14,014

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For individually impaired loans, the following tables set forth by class of loans at December 31, 2012, 2011 and 2010 the recorded investment, unpaid principal balance and related allowance. The tables also set forth the average recorded investment of individually impaired loans and interest income recognized while the loans were impaired during the years ended December 31, 2012, 2011 and 2010. The recorded investment for individually impaired loans is the unpaid principal balance.

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

	2011				
With no related allowance recorded:					
Commercial mortgages:					
Multifamily	$740	$740	$-	$743	$32
Other	39	39	-	40	-
Residential mortgages:					
Closed end	174	174	-	174	1
Revolving home equity	975	975	-	1,126	3
With an allowance recorded:					
Commercial and industrial	12	12	1	20	2
Commercial mortgages:					
Multifamily	1,393	1,393	312	1,419	-
Other	1,777	1,777	45	1,777	5

Residential mortgages - closed end	4,374	4,374	676	4,244	140
Total:					
Commercial and industrial	12	12	1	20	2
Commercial mortgages:					
Multifamily	2,133	2,133	312	2,162	32
Other	1,816	1,816	45	1,817	5
Residential mortgages:					
Closed end	4,548	4,548	676	4,418	141
Revolving home equity	975	975	-	1,126	3
	$9,484	$9,484	$1,034	$9,543	$183

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	2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance (in thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial mortgages - multifamily	$447	$447	$-	$451	$20
Residential mortgages - closed end	945	945	-	945	22
With an allowance recorded:					
Commercial and industrial	27	27	27	31	2
Commercial mortgages - multifamily	1,867	1,867	870	1,867	99
Total:					
Commercial and industrial	27	27	27	31	2
Commercial mortgages - multifamily	2,314	2,314	870	2,318	119
Residential mortgages - closed end	945	945	-	945	22
	$3,286	$3,286	$897	$3,294	$143

Interest income recorded by the Corporation on loans considered to be impaired was generally recognized using the accrual method of accounting. Any payments received on nonaccrual impaired loans are applied to the recorded investment in the loans.

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

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual Loans (in thousands)	Total Past Due Loans & Nonaccrual Loans	Current	Total Loans
Commercial and industrial	$-	$-	$ -	$-	$ -	$54,339	$54,339
Commercial mortgages:							
Multifamily	-	-	-	379	379	277,498	277,877
Other	-	-	-	-	-	141,952	141,952
Owner occupied	264	-	-	174	438	83,452	83,890
Residential mortgages:							
Closed end	369	-	-	3,163	3,532	495,903	499,435
Revolving home equity	248	-	-	382	630	80,494	81,124
Consumer	3	-	-	-	3	4,332	4,335
	$884	$-	$ -	$4,098	$ 4,982	$1,137,970	$1,142,952
	December 31, 2011						
Commercial and industrial	$-	$-	$ -	$-	$ -	$42,572	$42,572
Commercial mortgages:							
Multifamily	-	-	-	1,393	1,393	227,900	229,293

Other	-	-	-	-	-	140,629	140,629
Owner occupied	-	-	-	-	-	89,953	89,953
Residential mortgages:							
Closed end	649	-	-	768	1,417	383,957	385,374
Revolving home equity	88	-	-	1,050	1,138	89,478	90,616
Consumer	3	-	-	-	3	4,593	4,596
	$740	$-	$ -	$3,211	$ 3,951	$979,082	$983,033

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

For the year ended December 31, 2012, the Bank modified two loans in troubled debt restructurings. One modification involved extending the maturity date by 3 months. The other modification converted a revolving line to a term loan. Both modifications involved interest rate changes and in both cases the new interest rate was lower than the current market rate for new debt with similar risks. The interest rate changes were for periods of three months and 36 months, respectively, with pre-modification interest rates of 6.00% and 4.75%, respectively, and post modification interest rates of 2.00% and 5.75%, respectively. At December 31, 2012 and 2011, the Bank had an allowance for loan losses of $481,000 and $855,000, respectively, allocated to specific troubled debt restructurings. The Bank had no commitments to lend additional amounts to loans that were classified as troubled debt restructurings.

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The following table presents information about loans modified in troubled debt restructurings during the years ended December 31, 2012 and 2011:

	2012 Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
		(dollars in thousands)	
Commercial and industrial	1	$ 49	$ 49
Residential mortgage - closed end	1	129	129
	2	$ 178	$ 178
	2011		
Commercial mortgages			
Multifamily	2	$ 1,420	$ 1,420
Other	1	40	40
Residential mortgage - closed end	2	1,393	1,393
	5	$ 2,853	$ 2,853

The 2012 troubled debt restructurings described in the preceeding table did not result in a provision for loan losses during 2012, but the 2011 troubled debt restructurings did result in a provision for loan losses of $564,000 during 2011. There were no chargeoffs related to these loans at the time of restructure in either 2012 or 2011. One loan that was restructured in 2011 was partially charged off in the amount of $413,000 during 2012. This loan was transferred to the held-for-sale category during 2012 and sold at a gain of $28,000 prior to year-end.

There were no troubled debt restructurings for which there was a payment default during 2012 or 2011 that were modified during the twelve-month period prior to default. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Hurricane Sandy. Hurricane Sandy, which occurred in October 2012, resulted in considerable damage throughout the Bank's market area and adversely affected the collateral properties securing certain loans. To assist customers with residential mortgages, the Bank made modifications consisting of one or a combination of the following: (1) interest rate reductions; (2) interest only periods; and (3) maturity date extensions. The interest rate reductions, interest only periods and maturity date extensions were generally for three months or less. The Bank modified 25 residential mortgages covering $5.4 million of outstanding principal. There were no significant modifications to commercial mortgages.

Based on the insignificant changes in payment terms compared to the original payment terms and the financial condition of the borrowers, the Bank has determined that the modifications to date related to Hurricane Sandy do not represent troubled debt restructurings. Such modifications will not materially impact the Corporation's financial condition or results of operations.

Risk Characteristics. Credit risk within the Bank's loan portfolio primarily stems from factors such as borrower size, geographic concentration, industry concentration, real estate values, local and national economic conditions and environmental impairment of properties securing mortgage loans. The Bank's commercial loans, including those secured by mortgages, are primarily made to small and medium-sized businesses. Such loans sometimes involve a higher degree of risk than those to larger companies because such businesses may have shorter operating histories, higher debt-to-equity ratios and may lack sophistication in internal record keeping and financial and operational controls. In addition, most of the Bank's loans are made to businesses and consumers on Long Island and in the boroughs of New York City, and a large percentage of these loans are mortgage loans secured by properties located in those areas. The primary source of repayment for multifamily loans is cash flows from the underlying properties. Such cash flows are dependent on the strength of the local economy.

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

Commercial and industrial loans and commercial mortgage loans are risk rated utilizing a ten point rating system. The risk ratings along with their definitions are as follows:

1 – 2 Cash flow is of high quality and stable. Borrower has very good liquidity and ready access to traditional sources of credit. This category also includes loans to borrowers secured by cash and/or marketable securities within approved margin requirements.

3 – 4 Cash flow quality is strong, but shows some variability. Borrower has good liquidity and asset quality. Borrower has access to traditional sources of credit with minimal restrictions.

5 – 6 Cash flow quality is acceptable but shows some variability. Liquidity varies with operating cycle and assets provide an adequate margin of protection. Borrower has access to traditional sources of credit, but generally on a secured basis.

7 Watch - Cash flow has a high degree of variability and subject to economic downturns. Liquidity is strained and the ability of the borrower to access traditional sources of credit is diminished.

8 Special Mention - The borrower has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to risk sufficient to warrant adverse classification.

9 Substandard - Loans are inadequately protected by the current sound worth and paying capacity of the borrower or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

10 Doubtful - Loans have all the inherent weaknesses of those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk ratings on commercial and industrial loans and commercial mortgages are initially assigned by the lending officer together with any necessary approval authority. The ratings are periodically reviewed and evaluated through one or more of the following: (1) borrower contact; (2) credit department review; and (3) independent loan review. All commercial and industrial loans and commercial mortgages over $750,000 are generally reviewed by the credit department no less often than annually. The frequency of the review of other loans is determined by the Bank's ongoing assessments of the borrower's condition.

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

Internally Assigned Risk Rating	
1	Credit score is equal to or greater than 680.
2	Credit score is 635 to 679.
3	Credit score is below 635 or the loan has been classified, criticized or placed on watch.

The following tables present the recorded investment in commercial and industrial loans and commercial real estate loans by class of loans and risk rating at December 31, 2012 and 2011.

2012
Internally Assigned Risk Rating
Special

	1 - 2	3 - 4	5 - 6	Watch	Mention	Substandard	Doubtful	Total
				(in thousands)				
Commercial and industrial	$4,401	$6,225	$42,007	$1,268	$390	$ 48	$-	$54,339
Commercial mortgages:								
Multifamily	-	-	273,592	2,495	685	1,105	-	277,877
Other	-	1,899	131,924	3,457	2,899	1,773	-	141,952
Owner occupied	-	-	72,546	5,237	965	5,142	-	83,890
	$4,401	$8,124	$520,069	$12,457	$4,939	$ 8,068	$-	$558,058

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	2011							
	Internally Assigned Risk Rating							
	1 - 2	3 - 4	5 - 6	Watch	Special Mention	Substandard	Doubtful	Total
	(in thousands)							
Commercial and industrial	$4,911	$3,720	$33,604	$325	$-	$ 12	$-	$42,572
Commercial mortgages:								
Multifamily	-	-	222,136	5,024	-	2,133	-	229,293
Other	-	1,986	130,476	4,699	1,652	1,816	-	140,629
Owner occupied	-	-	82,870	1,018	537	5,528	-	89,953
	$4,911	$5,706	$469,086	$11,066	$2,189	$ 9,489	$-	$502,447

The following tables present the recorded investment in residential mortgages, home equity lines, and other consumer loans by class of loans and risk rating at December 31, 2012 and 2011.

	2012							
	Internally Assigned Risk Rating							
	1	2	3	Watch	Special Mention	Substandard	Doubtful	Total
	(in thousands)							
Residential mortgages:								
Closed end	$451,985	$25,160	$16,761	$501	$-	$ 5,028	$-	$499,435
Revolving home equity	66,673	6,630	6,665	774	-	382	-	81,124
Consumer	2,861	702	140	-	-	-	-	3,703
	$521,519	$32,492	$23,566	$1,275	$-	$ 5,410	$-	$584,262
	2011							
Residential mortgages:								
Closed end	$346,752	$19,977	$13,389	$731	$126	$ 4,399	$-	$385,374
Revolving home equity	74,831	8,655	5,726	280	-	1,124	-	90,616
Consumer	3,600	612	128	-	-	-	-	4,340
	$425,183	$29,244	$19,243	$1,011	$126	$ 5,523	$-	$480,330

Deposit account overdrafts were $632,000 and $256,000 at December 31, 2012 and 2011, respectively. They are not assigned a risk-rating and are therefore excluded from consumer loans in the above tables.

Loans to Directors and Executive Officers. Certain directors, including their immediate families and companies in which they are principal owners, and executive officers were loan customers of the Bank during 2012 and 2011. The aggregate outstanding amount of these loans was $860,000 and $1,537,000 at December 31, 2012 and 2011, respectively. During 2012, $89,000 of new loans to such persons were made representing advances on existing lines. Repayments totaled $766,000 in 2012. There were no loans to directors or executive officers that were nonaccrual at December 31, 2012 or 2011.

NOTE D – PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	December 31, 2012	2011
	(in thousands)	
Land	$ 6,182	$ 4,445
Buildings and improvements	16,364	14,259
Leasehold improvements	7,238	6,905
Furniture and equipment	21,931	20,365
Construction in process	384	555
	52,099	46,529
Accumulated depreciation and amortization	(27,536)	(24,720)
	$ 24,563	$ 21,809

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NOTE E – DEPOSITS

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

	Less than $100,000	Amount $100,000 or More	Total
		(in thousands)	
2013	$ 35,524	$ 90,485	$ 126,009
2014	12,957	14,421	27,378
2015	16,255	21,650	37,905
2016	22,473	36,781	59,254
2017	2,701	3,757	6,458
Thereafter	1,206	1,343	2,549
	$ 91,116	$ 168,437	$ 259,553

Deposits from executive officers, directors and their affiliates at December 31, 2012 and 2011 were approximately $11.0 million and $8.4 million, respectively.

NOTE F – BORROWED FUNDS

The following table summarizes borrowed funds at December 31, 2012 and 2011.

	December 31, 2012	2011
Short-term borrowings:	(in thousands)	
Securities sold under repurchase agreements	$ 11,634	$ 12,227
Federal Home Loan Bank advances	92,000	90,000
	103,634	102,227
Long-term debt:		
Securities sold under repurchase agreements	45,000	115,000
Federal Home Loan Bank advances	100,000	92,500
	145,000	207,500
	$ 248,634	$ 309,727

Accrued interest payable on borrowed funds is included in "accrued expenses and other liabilities" in the Consolidated Balance Sheets, and amounted to $380,000 and $790,000 at December 31, 2012 and 2011, respectively.

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

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

	2012	2011
	(dollars in thousands)	
Average daily balance during the year	$ 111,996	$ 130,555
Average interest rate during the year	4.02 %	4.01 %
Maximum month-end balance during the year	$ 127,699	$ 140,459

Weighted average interest rate at year-end	3.54 %	4.00 %

The agreements are collateralized by mortgage-backed and municipal securities with a carrying value of approximately $55 million at December 31, 2012.

The following table sets forth as of December 31, 2012 the contractual maturities and weighted average interest rates of securities sold under repurchase agreements for each of the next five years and the period thereafter. All of the repurchase agreements maturing in 2015 and thereafter are callable as of December 31, 2012.

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Contractual Maturity		Amount	Weighted Average Rate	
(dollars in thousands)				
Overnight	$	11,634	.12	%
2015		10,000	4.20	
2017		30,000	4.33	
After 2017		5,000	5.45	
		45,000	4.42	
	$	56,634	3.54	%

Federal Home Loan Bank Advances. FHLB advances were collateralized by a blanket lien on residential mortgages of $348 million and $329 million at December 31, 2012 and 2011, respectively. Each advance is non-amortizing and, for those advances with a term greater than one day, subject to a prepayment penalty.

The following table sets forth information concerning FHLB advances.

	December 31,					
		2012			2011	
	(dollars in thousands)					
Average daily balance during the year	$	145,392		$	95,759	
Average interest rate during the year		1.67	%		2.34	%
Maximum month-end balance during the year	$	207,500		$	182,500	
Weighted average interest rate at year-end		1.19	%		1.47	%

The following table sets forth as of December 31, 2012 the contractual maturities and weighted average interest rates of FHLB advances for each of the next five years and the period thereafter.

Contractual Maturity		Amount	Weighted Average Rate	
(dollars in thousands)				
Overnight	$	92,000	.31	%
2015		10,000	2.67	
2016		27,500	2.33	
After 2017		62,500	1.74	
		100,000	2.00	
	$	192,000	1.19	%

Other Borrowings. The Bank had no other borrowings at December 31, 2012 or 2011. In 2012 and 2011, the average balance of other borrowings amounted to $4,000 and $68,000, respectively, with average interest rates of .55% and .74%, respectively. The funds were borrowed to test the Bank's credit lines at the FRB discount window and at several commercial banks.

NOTE G – INCOME TAXES

The Corporation, the Bank and the Bank's subsidiaries, except for the REIT, file a consolidated federal income tax return. Income taxes charged to earnings in 2012, 2011 and 2010 had effective tax rates of 19.7%, 20.3% and 22.6%, respectively. The following table sets forth a reconciliation of the statutory Federal income tax rate to the Corporation's effective tax rate.

	Year Ended December 31,		
	2012	2011	2010
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
State and local income taxes, net of federal income tax benefit	3.1	3.1	2.9
Tax-exempt income, net of disallowed cost of funding	(17.5)	(16.9)	(14.6)
Other	0.1	0.1	0.3
	19.7 %	20.3 %	22.6 %

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

	Year Ended December 31,		
	2012	2011	2010
Current:		(in thousands)	
Federal	$1,575	$3,168	$4,772
State and local	607	1,033	1,211
	2,182	4,201	5,983
Deferred:			
Federal	2,262	636	(459)
State and local	573	107	(153)
	2,835	743	(612)
	$5,017	$4,944	$5,371

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

	December 31,	
	2012	2011
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 7,312	$ 6,335
Stock-based compensation	907	922
Supplemental executive retirement expense	19	18
Directors' retirement expense	71	75
Accrued rent expense	130	117
Other	51	30
	8,490	7,497
Valuation allowance	-	-
	8,490	7,497
Deferred tax liabilities:		
Prepaid pension	4,210	2,318
Unrealized gains on available-for-sale securities	14,956	15,358
Deferred loan costs	1,558	-
Prepaid expenses	184	-
Depreciation	912	939
	21,820	18,615
Net deferred tax liability	$ (13,330)	$ (11,118)

The Corporation had no unrecognized tax benefits at December 31, 2012, 2011 and 2010, and does not expect to have any within the next twelve months.

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

NOTE H – REGULATORY MATTERS

Minimum Regulatory Capital Requirements. The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the financial statements of the Corporation and Bank. Under the banking agencies’ capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must satisfy specific capital requirements that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets and Tier 1 capital to average assets. Tier 1 capital, risk weighted assets and average assets are as defined by regulation. The required minimums for the Corporation and Bank are set forth in the table that follows.

As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage capital ratios as set forth in the table that follows. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios at December 31, 2012 and 2011 are also presented in the table.

	2012								
	Actual Capital			Minimum Capital Adequacy Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	(dollars in thousands)								
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital to Risk Weighted Assets:									
Consolidated	$200,879	20.26	%	$79,309	8.00	%	N/A	N/A	
Bank	198,381	20.02		79,260	8.00		$99,075	10.00	%
Tier 1 Capital to Risk Weighted Assets:									
Consolidated	188,410	19.01		39,655	4.00		N/A	N/A	
Bank	185,920	18.77		39,630	4.00		59,445	6.00	
Tier 1 Capital to Average Assets:									
Consolidated	188,410	9.29		81,089	4.00		N/A	N/A	
Bank	185,920	9.17		81,070	4.00		101,338	5.00	

	2011								
	Actual Capital			Minimum Capital Adequacy Requirement			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	(dollars in thousands)								
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital to Risk Weighted Assets:									
Consolidated	$182,069	21.56	%	$67,554	8.00	%	N/A	N/A	
Bank	182,016	21.57		67,516	8.00		$84,395	10.00	%
Tier 1 Capital to Risk Weighted Assets:									
Consolidated	171,439	20.30		33,777	4.00		N/A	N/A	
Bank	171,393	20.31		33,758	4.00		50,637	6.00	
Tier 1 Capital to Average Assets:									
Consolidated	171,439	8.81		77,880	4.00		N/A	N/A	
Bank	171,393	8.80		77,878	4.00		97,347	5.00	

Other Matters. The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid by the Bank without prior approval of regulatory agencies. Under these regulations, the amount of dividends that the Bank may pay in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the minimum capital requirements described above. During 2013, the Bank could, without prior approval, declare dividends of approximately $27,838,000 plus any 2013 net profits retained to the date of the dividend declaration.

Regulation D of the Board of Governors of The Federal Reserve System requires banks to maintain reserves against certain deposit balances. The Bank's average reserve requirement for 2012 was approximately $11,254,000.

Under national banking laws and related statutes, the Bank is limited as to the amount it may loan to the Corporation, unless such loans are collateralized by specified obligations. At December 31, 2012, the maximum amount available for transfer from the Bank to the Corporation in the form of loans approximated $18,287,000.

NOTE I – SHAREHOLDER PROTECTION RIGHTS PLAN

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

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In the absence of an event of the type described below, the Rights will be evidenced by and trade with the Common Stock and will not be exercisable. However, the Rights will separate from the Common Stock and become exercisable following the earlier of (1) the tenth business day, or such later date as the Board may decide, after any person or persons (collectively referred to as "person") commences a tender offer that would result in such person holding a total of 20% or more of the outstanding Common Stock, or (2) ten business days after, or such earlier or later date as the Board may decide, the announcement by the Corporation that any person has acquired 20% or more of the outstanding Common Stock.

When separated from the Common Stock, each Right will entitle the holder to purchase one share of Common Stock for $75 ("Exercise Price"). However, in the event that the Corporation has announced that any person has acquired 20% or more of the outstanding Common Stock, the Rights owned by that person will be automatically void and each other Right will automatically become a right to buy, for the Exercise Price, that number of shares of Common Stock having a market value of twice the Exercise Price. Also, if any person acquires 20% or more of the outstanding Common Stock, the Board can require that, in lieu of exercise, each outstanding Right be exchanged for one share of Common Stock.

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

NOTE J – STOCK-BASED COMPENSATION

The Corporation has awards outstanding under two share-based compensation plans. The Corporation's 2006 Stock Compensation Plan ("2006 Plan") was approved by its shareholders on April 18, 2006, as a successor to the 1996 Stock Option and Appreciation Rights Plan ("1996 Plan").

The 2006 Plan permits the granting of stock options, stock appreciation rights, restricted stock, and restricted stock units ("RSUs") to employees and non-employee directors for up to 600,000 shares of common stock. At December 31, 2012, 143,730 shares of common stock were available for grant under the 2006 Plan of which the Corporation's Board of Directors granted 27,576 RSUs on January 22, 2013. If any outstanding award under the 2006 Plan for any reason expires or is terminated, the shares allocable to the unexercised portion of such award, including shares of restricted stock and RSUs which did not vest, may again be made subject to an award. The number of awards that can be granted under the 2006 Plan to any one person in any one fiscal year is limited to 70,000 shares.

Through December 31, 2011, equity grants to executive officers and directors under the 2006 Plan consisted of a combination of nonqualified stock options ("NQSOs") and RSUs, while equity grants to other officers consisted solely of NQSOs. Beginning with the January 2012 grant, the Corporation's Board of Directors determined that equity compensation for all officers and directors will consist solely of RSUs. Under the terms of the 2006 Plan, stock options and stock appreciation rights cannot have an exercise price that is less than 100% of the fair market value of one share of the underlying common stock on the date of grant. The terms and/or vesting of awards made under the 2006 Plan will be determined from time to time in accordance with rules adopted by the Corporation's Compensation Committee. Thus far, the Compensation Committee has used a five year vesting period and a ten year term for stock options granted under the 2006 Plan and has made the ability to convert RSUs into shares of common stock and the related conversion ratio contingent upon the financial performance of the Corporation in the third year of the three calendar year period beginning in the year in which the RSUs were awarded. Notwithstanding anything to the contrary in any award agreement, awards under the 2006 Plan will become immediately exercisable or will immediately vest, as the case may be, in the event of a change in control and, in accordance with the terms of the related award agreements, all awards granted to date under the 2006 Plan will become immediately exercisable or will immediately vest, as applicable, in the event of retirement or total and permanent disability, as defined, or death.

The Corporation’s 1996 Plan permitted the granting of stock options, with or without stock appreciation rights attached, and stand alone stock appreciation rights to employees and non-employee directors for up to 1,080,000 shares of common stock. The number of stock options and stock appreciation rights that could have been granted under the 1996 Plan to any one person in any one fiscal year was limited to 50,000. Each option granted under the 1996 Plan was granted at a price equal to the fair market value of one share of the Corporation’s stock on the date of grant. Options granted under the 1996 Plan on or before December 31, 2000, became exercisable in whole or in part commencing six months from the date of grant and ending ten years after the date of grant. Options granted under the 1996 Plan in January 2005, became exercisable in whole or in part commencing ninety days from the date of grant and ending ten years after the date of grant. By the terms of their grant, all other options under the 1996 Plan were granted with a three-year vesting period and a ten-year expiration date. However, vesting was subject to acceleration in the event of a change in control, retirement, death, disability, and certain other limited circumstances.

Fair Value of Stock Option Awards. The grant date fair value of option awards was estimated on the date of grant using the Black-Scholes option pricing model. The fair values of awards made in 2011 and 2010, as well as the assumptions utilized in determining such values, is presented below. There were no stock options granted by the Corporation’s Board of Directors during 2012.

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	2011		2010	
Grant date fair value	$10.30		$9.13	
Expected volatility	45.83	%	47.68	%
Expected dividends	3.03	%	3.19	%
Expected term (in years)	7.16		6.82	
Risk-free interest rate	1.93	%	2.34	%

Expected volatility was based on historical volatility for the expected term of the options. The Corporation used historical data to estimate the expected term of options granted. The risk-free interest rate was the implied yield at the time of grant on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options.

Fair Value of Restricted Stock Units. The fair value of restricted stock units is based on the market price of the shares underlying the awards on the grant date, discounted for dividends which are not paid on restricted stock units.

Compensation Expense. Compensation expense for stock options is recognized ratably over the five-year vesting period or the period from the grant date to the participant's eligible retirement date, whichever is shorter. Compensation expense for RSUs is recognized over the 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. 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. The Corporation recorded compensation expense for share-based payments of $782,000, $756,000 and $647,000 in 2012, 2011 and 2010, respectively, and related income tax benefits of $311,000, $300,000 and $257,000, respectively.

Stock Option Activity. The following table presents a summary of options outstanding under the Corporation's stock-based compensation plans as of December 31, 2012 and changes during the year then ended.

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2012	449,504	$22.31		
Exercised	(129,285)	20.14		
Forfeited or expired	(16,158)	21.20		
Outstanding at December 31, 2012	304,061	$23.29	4.99	$ 1,563
Exercisable at December 31, 2012	199,901	$22.31	3.95	$ 1,209

All options outstanding at December 31, 2012 are either fully vested or expected to vest. The total intrinsic value of options exercised in 2012, 2011 and 2010 was $1,017,000, $727,000 and $477,000, respectively.

Restricted Stock Activity. On January 24, 2012, the Corporation's Board of Directors granted 29,824 RSUs under the 2006 Plan. The Corporation's financial performance for 2014 will determine the number of shares of common stock, if any, into which the RSUs will ultimately be converted. In the table that follows, the number of RSUs granted represents the maximum number of shares into which the RSUs can be converted. A summary of the status of the Corporation's non-vested shares as of December 31, 2012, and changes during the year then ended is presented below.

Weighted-

	Number of Shares	Average Grant-Date Fair Value
Nonvested at January 1, 2012	30,023	$24.62
Granted	29,824	24.23
Vested	(10,968)	22.69
Forfeited	(3,435)	22.69
Nonvested at December 31, 2012	45,444	$24.98

The total fair value of RSUs vested during the years ended December 31, 2012, 2011 and 2010, was $311,000, $430,000 and $558,000, respectively.

Unrecognized Compensation Cost. As of December 31, 2012, there was $1.1 million of total unrecognized compensation cost related to non-vested equity awards. The cost is expected to be recognized over a weighted-average period of 2.20 years.

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Cash Received and Tax Benefits Realized. Cash received from option exercises in 2012, 2011 and 2010, was $2,603,000, $1,279,000 and $676,000, respectively. The actual tax benefit realized for the tax deductions from option exercises in 2012, 2011 and 2010, was $261,000, $148,000 and $11,000, respectively.

Other. No cash was used to settle stock options in 2012, 2011 or 2010. The Corporation uses newly issued shares to settle stock option exercises and for the conversion of RSUs.

NOTE K – RETIREMENT PLANS

The Bank has a 401(k) plan, defined benefit pension plan and supplemental executive retirement plan. Employees are immediately eligible to participate in the 401(k) plan provided they are at least 18 years of age. Participants may elect to contribute, on a tax-deferred basis, up to 100% of gross compensation, as defined, subject to the limitations of Section 401(k) of the Internal Revenue Code. The Bank may, at its sole discretion, make matching contributions to each participant's account based on the amount of the participant's tax deferred contributions. Participants are fully vested in their elective contributions and, after five years of participation in the 401(k) plan, are fully vested (20% vesting per year) in the matching contributions, if any, made by the Bank. Matching contributions were $332,000, $319,000 and $306,000 for 2012, 2011 and 2010, respectively.

The provisions of the Bank’s defined benefit pension plan (“Pension Plan” or “Plan”) are governed by the rules and regulations contained in the Prototype Plan of the New York State Bankers Retirement System (“Retirement System”) and the Retirement System Adoption Agreement executed by the Bank. The Retirement System is overseen by a Board of Trustees (“Trustees”) who meet quarterly and, among other things, set the investment policy guidelines. For investment purposes, the Pension Plan’s contributions are pooled with the contributions of the other participants in the Retirement System. Assets of the Pension Plan are invested in various debt and equity securities as set forth in this note under the captions “Plan Assets” and “Fair Value of Plan Assets.” Employees are eligible to participate in the Pension Plan after attaining 21 years of age and completing 12 full months of service. Pension benefits are generally based on a percentage of average annual compensation during the period of creditable service. The Bank makes annual contributions to the Pension Plan which, when taken together with participant contributions equal to 2% of their compensation, will be sufficient to fund these benefits. The Bank’s funding method, the unit credit actuarial cost method, is consistent with the funding requirements of applicable federal laws and regulations which set forth both minimum required and maximum tax deductible contributions. Employees become fully vested after four years of participation in the Pension Plan (no vesting occurs during the four-year period).

Significant Actuarial Assumptions. The following table sets forth the significant actuarial assumptions used to determine the benefit obligation at December 31, 2012, 2011 and 2010 and the benefit cost for each of the Plan years then ended.

Weighted average assumptions used to determine the benefit obligation at year end	2012	2011	2010
Discount rate	4.06%	5.23%	5.69%
Rate of increase in compensation levels	3.00%	3.00%	3.50%
Weighted average assumptions used to determine net pension cost			
Discount rate	5.23%	5.69%	5.89%
Rate of increase in compensation levels	3.00%	3.50%	3.50%
Expected long-term rate of return on plan assets	7.00%	7.00%	7.50%

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

	2012	2011	2010
		(in thousands)	
Service cost, net of plan participant contributions	$900	$1,227	$1,200
Interest cost	1,368	1,336	1,190
Expected return on plan assets	(2,259)	(2,087)	(1,792)
Amortization of prior service cost	23	23	23
Amortization of net actuarial loss	664	266	322
Net pension cost	$696	$765	$943

The estimated prior service cost and net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2013 are $23,000 and $631,000, respectively.

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Funded Status of the Plan. The following table sets forth the change in the projected benefit obligation and Plan assets for each year and, as of the end of each year, the funded status of the Plan and accumulated benefit obligation.

	2012	2011	2010
Change in projected benefit obligation:		(in thousands)	
Projected benefit obligation at beginning of year	$26,891	$23,772	$20,605
Service cost before plan participant contributions	1,142	1,456	1,444
Expenses	(235)	(216)	(174)
Interest cost	1,368	1,336	1,190
Benefits paid	(916)	(832)	(746)
Assumption changes	4,270	1,460	563
Experience loss (gain) and other	(1,822)	(85)	890
Projected benefit obligation at end of year	30,698	26,891	23,772
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year	33,023	29,640	24,307
Actual return on plan assets	3,460	1	2,267
Employer contributions	6,024	4,201	3,742
Plan participant contributions	242	229	244
Benefits paid	(916)	(832)	(746)
Expenses	(235)	(216)	(174)
Fair value of plan assets at end of year	41,598	33,023	29,640
Funded status at end of year	$10,900	$6,132	$5,868
Accumulated Benefit Obligation	$27,783	$24,314	$21,620

The Bank has no minimum required pension contribution and, due to the fact that the Plan is funded beyond most critical statutory thresholds, the Bank will have no opportunity to make a tax-deductible contribution for the Plan year ending September 30, 2013.

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

	2012	2011
	(in thousands)	
Net actuarial loss	$ 9,878	$ 9,294
Prior service cost	40	63
	$ 9,918	$ 9,357

Plan Assets. The Retirement System's overall investment strategy is to have approximately 97% of its investments for long-term growth and 3% for near-term benefit payments, with a diversification of asset types, fund strategies and fund managers.

The Plan’s asset allocations at December 31, 2012 and 2011, target allocations and the expected long-term rate of return by asset category are set forth in the table that follows.

Weighted

Percentage of Plan Assets

	Target Allocation	at December 31, 2012	2011	Average Expected Long-term Rates of Return
Cash equivalents	0% - 20%	12.8%	10.6%	<1.00%
Equity securities	40% - 60%	45.5%	47.9%	8.00 to 10.00%
Fixed income securities	40% - 60%	41.7%	41.5%	5.00 to 6.00%
Other financial instruments	0% - 5%	-	-	-
		100.0%	100.0%	6.50 to 7.50%

The weighted average expected long-term rate of return is estimated based on historical returns and adjusted to reflect future expectations. Such adjustments are based on, among other things, forecasts by economists of long-term inflation and GDP growth, earnings growth and per capita income. The following methodologies were used in determining the long-term rate of return:

- Equity securities - dividend discount model, the smoothed earnings yield model and the equity risk premium model.
- Fixed income securities - current yield-to-maturity and forecasts of future yields.
- Other financial instruments – comparison of the specific investment’s risk to that of fixed income and equity instruments and using judgment.

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The system currently prohibits its investment managers from purchasing any security greater than 5% of the portfolio value at the time of purchase or having greater than 8% of the market value of the assets invested in any one issuer. Additionally, the Plan is prohibited from investing in the following instruments:

- Equity securities – short sales, unregistered securities and margin purchases.
- Fixed income securities – mortgage backed derivatives that have an inverse floating rate coupon or that are interest only securities; any asset backed security that is not issued by the U.S. government, its agencies or its instrumentalities; securities of less than Baa2/BBB quality; and securities of less than A-quality that in the aggregate exceed 10% of the investment manager's portfolio.
- Other financial instruments – unhedged currency exposure in countries not defined as "high income economies" by the World Bank.

At December 31, 2012, the System holds certain investments that are no longer deemed acceptable to acquire. These positions will be liquidated when the investment managers deem that such liquidation is in the best interest of the System.

Fair Value of Plan Assets. The fair value of the Plan assets at December 31, 2012 and 2011, by asset category, is summarized below.

		Fair Value Measurements at December 31, 2012 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:		(in thousands)		
Short term investment funds	$5,099	$ -	$ 5,099	$ -
Government issues	226	-	226	-
Foreign currencies	43	43	-	-
Total cash equivalents	5,368	43	5,325	-
Equities:				
Common stock	18,319	18,319	-	-
Depository receipts	410	410	-	-
Preferred stock	81	81	-	-
Real estate investment trust	81	81	-	-
Total equities	18,891	18,891	-	-
Fixed income securities:				
Auto loan receivable	225	-	225	-
Collateralized mortgage obligations	4,508	-	4,508	-
Corporate bonds	3,927	-	3,927	-
Federal Home Loan Mortgage Corp	516	-	516	-
Federal National Mortgage Assoc.	2,064	-	2,064	-
Government National Mortgage Assoc. I	22	-	22	-
Government National Mortgage Assoc. II	96	-	96	-
Government issues	5,926	-	5,926	-
Municipals	45	-	45	-

Other asset backed	10	-	10	-
Total fixed income securities	17,339	-	17,339	-
Total Plan Assets	$41,598	$ 18,934	$ 22,664	$ -

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	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value Measurements at December 31, 2011 Using:			
Cash equivalents:		(in thousands)		
Short term investment funds	$3,448	$ -	$ 3,448	$ -
Foreign currencies	57	57	-	-
Total cash equivalents	3,505	57	3,448	-
Equities:				
Common stock	15,442	15,442	-	-
Depository receipts	332	332	-	-
Preferred stock	49	49	-	-
Total equities	15,823	15,823	-	-
Fixed income securities:				
Auto loan receivable	4	-	4	-
Collateralized mortgage obligations	3,227	-	3,227	-
Corporate bonds	2,935	-	2,935	-
Federal Home Loan Mortgage Corp.	569	-	569	-
Federal National Mortgage Assoc.	1,758	-	1,758	-
Government National Mortgage Assoc. I	24	-	24	-
Government National Mortgage Assoc. II	123	-	123	-
Government issues	4,979	-	4,979	-
Municipals	39	-	39	-
Other asset backed	37	-	37	-
Total fixed income securities	13,695	-	13,695	-
Total Plan Assets	$33,023	$ 15,880	$ 17,143	$ -

The definition of Level 1, 2 and 3 fair value measurements is included in Note N to these consolidated financial statements.

At December 31, 2012 and 2011, the Plan's short-term investment funds amounted to approximately 12% and 10%, respectively, of the Plans total assets and represented investments in the State Street Bank & Trust Company Short Term Investment Fund.

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

Year	Amount (in thousands)
2013	$ 1,083
2014	1,242
2015	1,367
2016	1,518

2017	1,688
2018-2022	9,852

The Bank’s Supplemental Executive Retirement Plan (“SERP”) currently covers the Bank’s CEO. The benefit under the SERP is equal to the additional amount that the CEO would be entitled to under the Pension and 401(k) plans in the absence of Internal Revenue Code limitations. SERP expense was $45,000, $151,000 and $126,000 in 2012, 2011 and 2010, respectively.

NOTE L – OTHER OPERATING EXPENSES

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

	2012	2011	2010
		(in thousands)	
Computer services	$1,911	$1,891	$1,728
FDIC assessment	1,034	1,104	1,909

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NOTE M – COMMITMENTS AND CONTINGENT LIABILITIES

Financial Instruments With Off-Balance-Sheet Risk. In the normal course of business, the Bank enters into various types of off-balance sheet arrangements to meet the financing needs of its customers. These off-balance sheet financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. These instruments involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets and expose the Bank to credit loss in the event of nonperformance by the Bank's customers. The Bank's exposure to credit loss is represented by the contractual notional amount of these instruments. The Bank uses the same credit policies in making commitments to extend credit, and generally uses the same credit policies for letters of credit, as it does for on-balance-sheet instruments such as loans.

At December 31, 2012 and 2011, financial instruments whose contract amounts represent credit risk are as follows:

	2012		2011	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to extend credit	$ 8,420	$ 159,313	$ 14,479	$ 123,877
Standby letters of credit	5,961	-	4,334	-
Commercial letters of credit	87	-	63	-

A commitment to extend credit is a legally binding agreement to lend to a customer as long as there is no violation of any condition established in the contract. Unused home equity lines are the largest component of the Bank's variable rate loan commitments. Since some of the commitments to extend credit and letters of credit are expected to expire without being drawn upon and, with respect to unused home equity lines, can be frozen, reduced or terminated by the Bank based on the financial condition of the borrower, the total commitment amounts do not necessarily represent future cash requirements. Home equity lines generally expire ten years from their date of origination, other real estate loan commitments generally expire within 60 days and commercial loan commitments generally expire within one year. At December 31, 2012, the Bank's fixed rate loan commitments are to make loans with interest rates ranging from 2.75% to 4.00% and maturities of 5 years and over. The amount of collateral obtained, if any, by the Bank upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include mortgages on commercial and residential real estate, security interests in business assets, deposit accounts with the Bank or other financial institutions and securities.

Standby letters of credit are conditional commitments issued by the Bank to assure the performance or financial obligations of a customer to a third party. The Bank's standby letters of credit extend through March 2014. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank generally holds collateral and/or obtains personal guarantees supporting these commitments. The extent of collateral held for these commitments at December 31, 2012 varied from 0% to 100% of the contractual notional amount of each instrument, with the overall amount of collateral totaling 88% of the aggregate outstanding notional amount. Standby letters of credit are considered financial guarantees and are recorded at fair value.

Commercial letters of credit are conditional commitments issued by the Bank to assure the payment by a customer to a supplier. The credit risk involved in issuing commercial letters of credit is the same as that discussed in the preceding paragraph for standby letters of credit. The Bank generally holds collateral and/or obtains personal guarantees supporting these commitments.

Employment Contracts. At December 31, 2012, all of the Bank's executive officers had employment contracts with the Corporation under which they are entitled to severance compensation in the event of an involuntary termination of employment or resignation of employment following a change in control. The terms of these contracts currently range from six months to three years and, for those contracts with terms of eighteen months or more, unless the Corporation gives written notice of non-extension within the time frames set forth in the contracts, the contracts are automatically extended at the expiration of each year for an additional period of one year, thus resulting in new terms of between eighteen months and three years. The current aggregate annual salaries provided for in these contracts is approximately $1,687,500.

Lease Commitments. At December 31, 2012, minimum annual rental commitments under non-cancelable operating leases are as follows:

Year	Amount (in thousands)
2013	$ 1,294
2014	1,145
2015	1,008
2016	868
2017	785
Thereafter	3,103
	$ 8,203

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The Bank has various renewal options on the above leases. Rent expense, including amounts paid for real estate taxes and common area maintenance, was $1,531,000, $1,515,000 and $1,431,000 in 2012, 2011 and 2010, respectively.

Related Party Leases. Buildings occupied by two of the Bank's branch offices are leased from a director of the Corporation and the Bank. The leases expire on October 31, 2017 and December 31, 2019. Aggregate base rent expense for these leases for the years ending December 31, 2012, 2011 and 2010 amounted to $67,000, $67,000 and $66,000, respectively. In addition to base rent, the Bank is responsible for its proportionate share of the real estate taxes on one of the leased properties. The Corporation believes that the terms of these leases are comparable to market terms that could have been obtained from an unrelated third party.

Litigation. The Corporation is a named defendant in several legal actions incidental to the business. For some of these actions there is a possibility that the Corporation will sustain a financial loss, and for one the Bank has agreed to a settlement with the plaintiff. The amount of the settlement has been accrued by a charge to 2012 earnings. Management believes that none of the possible losses are material.

NOTE N – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Corporation deems transfers between levels of the fair value hierarchy to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels of the fair value hierarchy in either 2012 or 2011.

The fair values of the Corporation's investment securities designated as available-for-sale at December 31, 2012 and 2011 are set forth in the tables that follow. These values are determined on a recurring basis using matrix pricing (Level 2 inputs). Matrix pricing, which is a mathematical technique widely used in the industry to value debt securities, does not rely exclusively on quoted prices for the specific securities but rather on the relationship of such securities to other benchmark quoted securities.

	Fair Value Measurements at December 31, 2012 Using:		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

	Total	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:		(in thousands)		
State and municipals	$332,513	$ -	$ 332,513	$ -
Pass-through mortgage securities	84,956	-	84,956	-
Collateralized mortgage obligations	399,965	-	399,965	-
	$817,434	$ -	$ 817,434	$ -

		Fair Value Measurements at December 31, 2011 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities:		(in thousands)		
U.S. government agencies	$5,113	$ -	$ 5,113	$ -
State and municipals	313,195	-	313,195	-
Pass-through mortgage securities	73,786	-	73,786	-
Collateralized mortgage obligations	501,862	-	501,862	-
	$893,956	$ -	$ 893,956	$ -

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Assets measured at fair value on a nonrecurring basis at December 31, 2012 and 2011, are set forth in the table that follows. Real estate appraisals utilized in measuring the fair value of impaired loans may employ a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. In arriving at fair value, the Corporation adjusts the value set forth in the appraisal by deducting costs to sell and a distressed sale adjustment. The adjustments made by the appraisers and the Corporation are deemed to be significant unobservable inputs and therefore result in a Level 3 classification of the inputs used for determining the fair value of impaired loans. Because the Corporation has a small amount of impaired loans measured at fair value, the impact of unobservable inputs on the Corporation's financial statements is not material.

		Fair Value Measurements Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Impaired loans - December 31, 2012:				
Residential mortgages - closed end	$1,929	$-	$-	$ 1,929
Impaired loans - December 31, 2011:				
Commercial mortgages - multifamily	$805	$-	$-	$ 805
Residential mortgages - closed end	507	-	-	507
	$1,312	$-	$-	$ 1,312

The impaired loans set forth in the preceding table had principal balances of $2,248,000 and $1,651,000 at December 31, 2012 and 2011, respectively, and valuation allowances of $319,000 and $339,000, respectively. During the years ended December 31, 2012 and 2011, the Corporation recorded provisions for loan losses of $26,000 and $339,000, respectively, for impaired loans measured at fair value. There was no related provision for loan losses recorded in 2010.

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

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The following table sets forth the carrying amounts and estimated fair values of financial instruments that are not recorded at fair value in the Corporation's financial statements at December 31, 2012 and 2011.

	Level of Fair Value Hierarchy	December 31, 2012		December 31, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial Assets:					
Cash and cash equivalents	Level 1	$42,191	$42,191	$29,495	$29,495
Held-to-maturity securities	Level 2	43,362	46,153	60,970	64,962
Held-to-maturity securities	Level 3	805	805	1,115	1,115
Loans	Level 3	1,126,831	1,140,731	967,975	989,785
Restricted stock	Level 1	13,104	13,104	12,284	12,284
Accrued interest receivable:					
Investment securities	Level 2	4,943	4,943	5,621	5,621
Loans	Level 3	3,332	3,332	3,401	3,401
Financial Liabilities:					
Checking deposits	Level 1	528,940	528,940	435,517	435,517
Savings, NOW and money market deposits	Level 1	844,583	844,583	796,009	796,009
Time deposits	Level 2	259,553	268,907	271,342	280,791
Short-term borrowings	Level 1	103,634	103,634	102,227	102,227
Long-term debt	Level 2	145,000	154,050	207,500	223,731
Accrued interest payable:					
Checking, savings, NOW and money market deposits	Level 1	740	740	507	507
Time deposits	Level 2	3,828	3,828	2,902	2,902
Short-term borrowings	Level 1	1	1	2	2
Long-term debt	Level 2	379	379	787	787

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

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

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

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

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

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

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

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

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

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NOTE O – PARENT COMPANY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS	December 31,	
	2012	2011
	(in thousands)	
Assets:		
Cash and due from banks	$981	$685
Investment in subsidiary bank, at equity	202,880	189,300
Prepaid income taxes	601	461
Deferred income tax benefits	907	922
Other assets	1	1
	$205,370	$191,369
Liabilities:		
Cash dividends payable	$-	$2,022
Stockholders' equity:		
Common stock	900	879
Surplus	42,643	37,507
Retained earnings	145,087	133,273
	188,630	171,659
Accumulated other comprehensive income, net of tax	16,740	17,688
	205,370	189,347
	$205,370	$191,369

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CONDENSED STATEMENTS OF INCOME	Year ended December 31, 2012	2011	2010
		(in thousands)	
Income:			
Dividends from subsidiary bank	$6,550	$6,790	$3,750
Interest on deposits with subsidiary bank	-	1	7
	6,550	6,791	3,757
Expenses:			
Salaries	782	756	647
Other operating expenses	353	313	268
	1,135	1,069	915
Income before income taxes	5,415	5,722	2,842
Income tax benefit	(451)	(424)	(360)
Income before undistributed earnings of subsidiary bank	5,866	6,146	3,202
Equity in undistributed earnings	14,527	13,311	15,190
Net income	$20,393	$19,457	$18,392
Comprehensive Income	$19,445	$38,561	$13,325

CONDENSED STATEMENTS OF CASH FLOWS	Year ended December 31, 2012	2011	2010
		(in thousands)	
Cash Flows From Operating Activities:			
Net income	$20,393	$19,457	$18,392
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiary bank	(14,527)	(13,311)	(15,190)
Deferred income tax debit (credit)	15	(102)	(127)
Stock-based compensation expense	782	756	647
Increase in prepaid income taxes	(140)	(188)	(110)
Decrease in other assets	-	-	1
Net cash provided by operating activities	6,523	6,612	3,613
Cash Flows From Investing Activities:			
Contribution of capital to subsidiary bank	-	-	(32,200)
Net cash used in investing activities	-	-	(32,200)
Cash Flows From Financing Activities:			
Repurchase and retirement of common stock	(369)	(185)	(91)
Proceeds from exercise of stock options	2,603	1,279	676
Tax benefit of stock options	135	139	39
Proceeds from issuance of common stock	2,006	-	32,362
Cash dividends paid	(10,602)	(7,790)	(6,253)
Net cash provided by (used in) financing activities	(6,227)	(6,557)	26,733
Net increase (decrease) in cash and cash equivalents*	296	55	(1,854)
Cash and cash equivalents, beginning of year	685	630	2,484
Cash and cash equivalents, end of year	$981	$685	$630

Supplemental Schedule of Noncash Financing Activities:			
Cash dividends payable	$-	$2,022	$1,916

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

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NOTE P – QUARTERLY FINANCIAL DATA (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
		(in thousands, except per share data)			
2012					
Interest income	$19,511	$19,598	$18,720	$18,400	$76,229
Interest expense	4,477	4,296	3,880	3,474	16,127
Net interest income	15,034	15,302	14,840	14,926	60,102
Provision for loan losses	1,123	623	1,157	725	3,628
Noninterest income before net securities gains	1,596	1,680	1,653	1,646	6,575
Net gains on sales of securities	108	3,505	-	-	3,613
Noninterest expense before debt extinguishment costs	9,177	9,240	9,478	9,545	37,440
Debt extinguishment costs	-	3,812	-	-	3,812
Income before income taxes	6,438	6,812	5,858	6,302	25,410
Income tax expense	1,287	1,408	1,071	1,251	5,017
Net income	5,151	5,404	4,787	5,051	20,393
Earnings per share:					
Basic	.58	.61	.54	.56	2.29
Diluted	.58	.60	.53	.56	2.27
Comprehensive income	5,802	3,571	8,788	1,284	19,445
2011					
Interest income	$18,404	$18,686	$19,587	$19,635	$76,312
Interest expense	4,129	4,306	4,566	4,566	17,567
Net interest income	14,275	14,380	15,021	15,069	58,745
Provision for loan losses	854	1,029	754	1,424	4,061
Noninterest income before net securities gains	1,538	1,622	1,569	1,559	6,288
Net gains on sales of securities	122	-	-	16	138
Noninterest expense	9,067	9,136	9,040	9,466	36,709
Income before income taxes	6,014	5,837	6,796	5,754	24,401
Income tax expense	1,244	1,164	1,510	1,026	4,944
Net income	4,770	4,673	5,286	4,728	19,457
Earnings per share:					
Basic	.55	.53	.60	.54	2.22
Diluted	.54	.53	.60	.53	2.20
Comprehensive income	9,568	10,806	13,054	5,133	38,561

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The First of Long Island Corporation

Glen Head, New York

We have audited the accompanying consolidated balance sheets of The First of Long Island Corporation as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited The First of Long Island Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The First of Long Island Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The First of Long Island Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, The First of Long Island Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Horwath LLP

New York, New York
March 18, 2013

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

The First of Long Island Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control—Integrated Framework issued by COSO. Based on the assessment, management determined that, as of December 31, 2012, the Corporation's internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

Crowe Horwath LLP, an independent registered public accounting firm, has expressed an opinion on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2012 in their report which appears on page 66.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

“Election of Directors,” “Business Experience of Directors and other Directorships,” “Qualifications of Directors,” “Management,” “Governance and Nominating Committee,” and “Audit Committee” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 16, 2013 are incorporated herein by reference.

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

ITEM 11. EXECUTIVE COMPENSATION

“Compensation of Directors,” “Compensation Discussion and Analysis,” “Compensation of Executive Officers,” “Compensation Pursuant to Plans,” and “Employment Contracts” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 16, 2013 are incorporated herein by reference.

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

“Voting Securities and Principal Stockholders” and “Equity Compensation Plan Information” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 16, 2013 are incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

“Transactions with Management and Others” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 16, 2013 is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

“Ratification of Appointment of Independent Registered Public Accounting Firm” set forth in the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held April 16, 2013 is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

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

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

(a) 2. Financial Statement Schedules

None applicable.

(a) 3. Listing of Exhibits

See Index of Exhibits below.

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INDEX OF EXHIBITS

Exhibit No.	Description of Exhibit
3(i)	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(i) of Registrant's Form 10-K filed March 29, 1999)
3(ii)	By-laws, as amended (incorporated by reference to Exhibit 3(ii) of Registrant's Form 8-K filed January 23, 2013)
10.1	Incentive Compensation Plan for Directors and Executive Officers, as amended (incorporated by reference to Items 1.01 of Registrant's Form 8-K filed March 7, 2012 and Item 5.02 of Registrant's Form 8-K filed January 28, 2013)
10.2	1996 Stock Option and Appreciation Rights Plan, as amended (incorporated by reference to Exhibit 10(b) of Registrant's Form 10-K filed March 22, 1996, Exhibit 10.4 of Registrant's Form 10-K filed March 27, 2001 and Exhibit 10.8 of Registrant's Form 8-K filed December 19, 2008)
10.3	The First of Long Island Corporation 2006 Stock Compensation Plan, as amended (incorporated by reference to Appendix A of Registrant's Proxy Statement filed March 15, 2006, Exhibit 10.9 of Registrant's Form 8-K filed December 19, 2008, part of Item 5.02 of Registrant's Form 8-K filed June 21, 2010 and Item 5.02 and Exhibit 10.15 of Registrant's Form 8-K filed September 27, 2010)
10.4	Employment Agreement between Registrant and Michael N. Vittorio, as amended (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 20, 2005 and Exhibit 10.1 of Registrant's Form 8-K filed December 19, 2008)
10.5	Employment Agreement between Registrant and Donald L. Manfredonia, as amended (incorporated by reference to Exhibit 10.7 of Registrant's Form 10-K filed March 29, 2002, Exhibit 10.5 of Registrant's Form 8-K filed March 3, 2005 and Exhibit 10.3 of Registrant's Form 8-K filed December 19, 2008)
10.6	Employment Agreement between Registrant and Richard Kick, as amended (incorporated by reference to Exhibit 10.3 of Registrant's Form 8-K filed March 3, 2005 and Exhibit 10.5 of Registrant's Form 8-K filed December 19, 2008)
10.7	Employment Agreement between Registrant and Mark D. Curtis, as amended (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed March 3, 2005, Exhibit 10.4 of Registrant's Form 8-K filed December 19, 2008 and Exhibit 10.10 of Registrant's Form 8-K filed October 21, 2009)
10.8	Employment Agreement between Registrant and Brian J. Keeney, as amended (incorporated by reference to Exhibit 10.2.1 of Registrant's Form 8-K/A filed March 9, 2005 and Exhibit 10.6 of Registrant's Form 8-K filed December 19, 2008)
10.9	Employment Agreement between Registrant and Sallyanne K. Ballweg, as amended (incorporated by reference to Exhibit 10.12 of Registrant's Form 8-K filed January 4, 2008, Exhibit 10.13 of Registrant's Form 10-K filed March 16, 2009, Exhibit 10.2 of Registrant's Form 8-K filed December 19, 2008 and Exhibit 10.13 of Registrant's Form 8-K filed May 21, 2009)
10.10	

	Amendment to Supplemental Executive Retirement Program (incorporated by reference to Exhibit 10.10 of Registrant's Form 8-K filed December 19, 2008)
21	Subsidiary information included in Part 1, "Business" of this Form 10-K
23	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) and U.S.C. Section 1350
101	The following materials from the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section l3 or l5(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE FIRST OF LONG ISLAND CORPORATION
(Registrant)

Dated: March 18, 2013

By /s/ MICHAEL N. VITTORIO
MICHAEL N. VITTORIO, President & Chief Executive Officer
(principal executive officer)

By /s/ MARK D. CURTIS
MARK D. CURTIS, Senior Vice President and Treasurer
(principal financial officer and principal accounting officer)

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

Signatures	Titles	Date
/s/ WALTER C. TEAGLE III Walter C. Teagle	Non-executive Chairman of the Board	March 18, 2013
/s/ ALLEN E. BUSCHING Allen E. Busching	Director	March 18, 2013
/s/ PAUL T. CANARICK Paul T. Canarick	Director	March 18, 2013
/s/ ALEXANDER L. COVER Alexander L. Cover	Director	March 18, 2013
/s/ HOWARD THOMAS HOGAN JR. Howard Thomas Hogan Jr.	Director	March 18, 2013
/s/ JOHN T. LANE John T. Lane	Director	March 18, 2013
/s/ J. DOUGLAS MAXWELL JR. J. Douglas Maxwell Jr.	Director	March 18, 2013
/s/ STEPHEN V. MURPHY Stephen V. Murphy	Director	March 18, 2013

/s/ MILBREY RENNIE TAYLOR Milbrey Rennie Taylor	Director	March 18, 2013
/s/ MICHAEL N. VITTORIO Michael N. Vittorio	Director	March 18, 2013

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