

FIRST OF LONG ISLAND CORP

Form 10-Q

May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31,
2018

or

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

For the transition period from to

Commission file number 001-32964

THE FIRST OF LONG ISLAND CORPORATION

(Exact name of registrant as specified in its charter)

New York 11-2672906
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

10 Glen Head Road, Glen Head, NY 11545
(Address of principal executive offices) (Zip Code)
(516) 671-4900

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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Large accelerated filer
Non accelerated filer (Do not check if a smaller reporting company) Emerging growth company
Smaller reporting company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Title of Each Class	Outstanding at April 30, 2018
Common stock, \$.10 par value per share	25,347,258

TABLE OF CONTENTS

PART I.	<u>FINANCIAL INFORMATION</u>	
ITEM 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets (Unaudited) – March 31, 2018 and December 31, 2017</u>	1
	<u>Consolidated Statements of Income (Unaudited) – Three Months Ended March 31, 2018 and 2017</u>	2
	<u>Consolidated Statements of Comprehensive Income (Unaudited) – Three Months Ended March 31, 2018 and 2017</u>	
	<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) – Three Months Ended March 31, 2018 and 2017</u>	4
	<u>Consolidated Statements of Cash Flows (Unaudited) – Three Months Ended March 31, 2018 and 2017</u>	5
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
ITEM 4.	<u>Controls and Procedures</u>	31
PART II.	<u>OTHER INFORMATION</u>	
ITEM 1.	<u>Legal Proceedings</u>	31
ITEM 1A.	<u>Risk Factors</u>	31
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
ITEM 3.	<u>Defaults Upon Senior Securities</u>	31
ITEM 4.	<u>Mine Safety Disclosures</u>	31
ITEM 5.	<u>Other Information</u>	31
ITEM 6.	<u>Exhibits</u>	31
	<u>Signatures</u>	33

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(dollars in thousands)	March 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 69,918	\$ 69,672
Investment securities:		
Held-to-maturity, at amortized cost (fair value of \$7,027 and \$7,749)	6,936	7,636
Available-for-sale, at fair value	813,840	720,128
	820,776	727,764
Loans:		
Commercial and industrial	108,741	109,623
Secured by real estate:		
Commercial mortgages	1,245,194	1,193,007
Residential mortgages	1,693,333	1,558,564
Home equity lines	81,673	83,625
Consumer and other	6,030	5,533
	3,134,971	2,950,352
Allowance for loan losses	(35,154)	(33,784)
	3,099,817	2,916,568
Restricted stock, at cost	33,184	37,314
Bank premises and equipment, net	40,020	39,648
Bank-owned life insurance	79,291	59,665
Pension plan assets, net	19,232	19,152
Deferred income tax benefit	4,468	—
Other assets	18,718	24,925
	\$ 4,185,424	\$ 3,894,708
Liabilities:		
Deposits:		
Checking	\$ 950,681	\$ 896,129
Savings, NOW and money market	1,775,662	1,602,460
Time, \$100,000 and over	247,099	203,890
Time, other	230,207	119,518
	3,203,649	2,821,997
Short-term borrowings	172,777	281,141

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Long-term debt	437,027	423,797
Accrued expenses and other liabilities	10,525	10,942
Deferred income taxes payable	—	2,381
	3,823,978	3,540,258
Stockholders' Equity:		
Common stock, par value \$.10 per share:		
Authorized, 40,000,000 shares;		
Issued and outstanding, 25,024,667 and 24,668,390 shares	2,502	2,467
Surplus	134,924	127,122
Retained earnings	231,937	224,315
	369,363	353,904
Accumulated other comprehensive income (loss), net of tax	(7,917)	546
	361,446	354,450
	\$ 4,185,424	\$ 3,894,708

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	Three Months Ended	
	2018	2017
Interest and dividend income:		
Loans	\$ 26,664	\$ 22,919
Investment securities:		
Taxable	2,209	2,202
Nontaxable	3,431	3,377
	32,304	28,498
Interest expense:		
Savings, NOW and money market deposits	2,540	1,491
Time deposits	1,708	1,188
Short-term borrowings	783	389
Long-term debt	2,117	1,770
	7,148	4,838
Net interest income	25,156	23,660
Provision for loan losses	1,512	788
Net interest income after provision for loan losses	23,644	22,872
Noninterest income:		
Investment Management Division income	581	522
Service charges on deposit accounts	700	703
Net gains on sales of securities	—	57
Other	2,011	1,171
	3,292	2,453
Noninterest expense:		
Salaries	7,047	6,228
Employee benefits and other personnel expense	2,170	1,838
Occupancy and equipment	2,813	2,521
Other	2,838	2,760
	14,868	13,347
Income before income taxes	12,068	11,978
Income tax expense	957	2,897
Net income	\$ 11,111	\$ 9,081
Earnings per share:		
Basic	\$.44	\$.38
Diluted	\$.44	\$.38
Cash dividends declared per share	\$.15	\$.14

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Net income	\$ 11,111	\$ 9,081
Other comprehensive income (loss):		
Change in net unrealized holding gains on available-for-sale securities	(11,734)	1,071
Change in funded status of pension plan	—	5
Other comprehensive income (loss) before income taxes	(11,734)	1,076
Income tax expense (benefit)	(3,548)	452
Other comprehensive income (loss)	(8,186)	624
Comprehensive income	\$ 2,925	\$ 9,705

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(dollars in thousands)	Three Months Ended March 31, 2018					
	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Surplus			
Balance, January 1, 2018	24,668,390	\$ 2,467	\$ 127,122	\$ 224,315	\$ 546	\$ 354,450
Net income				11,111		11,111
Other comprehensive loss					(8,186)	(8,186)
Reclassification of stranded tax effects upon the adoption of ASU 2018-02				277	(277)	—
Shares withheld upon the vesting and conversion of RSUs	(25,321)	(3)	(719)			(722)
Common stock issued under stock compensation plans	112,237	11	101			112
Common stock issued under dividend reinvestment and stock purchase plan	269,361	27	7,292			7,319
Stock-based compensation			1,128			1,128
Cash dividends declared				(3,766)		(3,766)
Balance, March 31, 2018	25,024,667	\$ 2,502	\$ 134,924	\$ 231,937	\$ (7,917)	\$ 361,446

(dollars in thousands)	Three Months Ended March 31, 2017					
	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Surplus			
Balance, January 1, 2017	23,699,107	\$ 2,370	\$ 101,738	\$ 203,326	\$ (1,604)	\$ 305,830
Net income				9,081		9,081
Other comprehensive income					624	624
Shares withheld upon the vesting and conversion of RSUs	(19,339)	(2)	(525)			(527)
Common stock issued under stock compensation plans	75,219	7	142			149
Common stock issued under dividend reinvestment and						

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stock purchase plan	146,720	15	3,869			3,884
Stock-based compensation			747			747
Cash dividends declared				(3,356)		(3,356)
Balance, March 31, 2017	23,901,707	\$ 2,390	\$ 105,971	\$ 209,051	\$ (980)	\$ 316,432

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 11,111	\$ 9,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,512	788
Provision (credit) for deferred income taxes	(3,301)	645
Depreciation and amortization	917	824
Premium amortization on investment securities, net	466	838
Net gains on sales of securities	—	(57)
Stock-based compensation expense	1,128	747
Common stock issued in lieu of cash for director fees	16	13
Accretion of cash surrender value on bank-owned life insurance	(488)	(349)
Net pension credit	(80)	(29)
Decrease (increase) in other assets	1,944	(2,408)
Increase (decrease) in accrued expenses and other liabilities	(478)	2,624
Net cash provided by operating activities	12,747	12,717
Cash Flows From Investing Activities:		
Proceeds from sales of available-for-sale investment securities	—	40,011
Proceeds from maturities and redemptions of investment securities:		
Held-to-maturity	1,054	1,331
Available-for-sale	17,032	34,753
Purchases of investment securities:		
Held-to-maturity	(338)	—
Available-for-sale	(122,960)	(6,666)
Net increase in loans	(184,761)	(129,862)
Proceeds from sale of other real estate owned	5,125	—
Net decrease in restricted stock	4,130	2,580
Purchases of premises and equipment, net	(1,289)	(1,150)
Purchases of bank-owned life insurance	(20,000)	(25,000)
Net cash used in investing activities	(302,007)	(84,003)
Cash Flows From Financing Activities:		
Net increase in deposits	381,652	138,877
Net decrease in short-term borrowings	(108,364)	(67,528)
Proceeds from long-term debt	39,680	11,000
Repayment of long-term debt	(26,450)	—
Proceeds from issuance of common stock, net	7,319	3,884
Proceeds from exercise of stock options	96	136
Shares withheld upon the vesting and conversion of RSUs	(722)	(527)
Cash dividends paid	(3,705)	(3,318)
Net cash provided by financing activities	289,506	82,524
Net increase in cash and cash equivalents	246	11,238
Cash and cash equivalents, beginning of year	69,672	36,929
Cash and cash equivalents, end of period	\$ 69,918	\$ 48,167

Supplemental Cash Flow Disclosures:

Cash paid for:		
Interest	\$ 7,091	\$ 4,872
Income taxes	—	260
Noncash investing and financing activities:		
Cash dividends payable	3,859	3,406

See notes to unaudited consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 - BASIS OF PRESENTATION

The accounting and reporting policies of The First of Long Island Corporation (“Corporation”) reflect banking industry practice and conform to generally accepted accounting principles (“GAAP”) in the United States. 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 consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, The First National Bank of Long Island (“Bank”). The Bank has two wholly owned subsidiaries: FNY Service Corp., an investment company, and The First of Long Island Agency, Inc. The Bank and FNY Service Corp. jointly own another subsidiary, The First of Long Island REIT, Inc., a real estate investment trust (“REIT”). 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. For further information refer to the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017.

The consolidated financial information included herein as of and for the periods ended March 31, 2018 and 2017 is unaudited. However, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The December 31, 2017 consolidated balance sheet was derived from the Corporation's December 31, 2017 audited consolidated financial statements. When appropriate, items in the prior year financial statements are reclassified to conform to the current period presentation.

2 - EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share (“EPS”) for the periods indicated.

(dollars in thousands, except per share data)	Three Months Ended	
	March 31,	
	2018	2017
Net income	\$ 11,111	\$ 9,081

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Income allocated to participating securities (1)	37	34
Income allocated to common stockholders	\$ 11,074	\$ 9,047
Weighted average:		
Common shares	24,962,520	23,858,640
Dilutive stock options and restricted stock units (1)	204,345	264,305
	25,166,865	24,122,945
Earnings per share:		
Basic	\$.44	\$.38
Diluted	.44	.38

(1) Restricted stock units (“RSUs”) awarded in 2016 accrue dividends at the same rate as the dividends declared by the Board of Directors on the Corporation’s common stock. For purposes of computing EPS, these RSUs are considered to participate with common stock in the earnings of the Corporation and, therefore, the Corporation calculates basic and diluted EPS using the two-class method. Under the two-class method, net income for the period is allocated between common stockholders and participating securities according to dividends declared and participation rights in undistributed earnings. As a result, the RSUs awarded in 2016 are not included in the weighted average “dilutive stock options and restricted stock units” in the table above.

3 - COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes revenues, expenses, gains and losses that under GAAP are included in comprehensive income but excluded from net income. Other comprehensive income (loss) 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 (loss) is recognized as a separate component of stockholders’ equity.

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

(in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Change in net unrealized holding gains (losses) on available-for-sale securities:		
Change arising during the period	\$ (11,734)	\$ 1,128
Reclassification adjustment for gains included in net income (1)	—	(57)
	(11,734)	1,071
Tax effect	(3,548)	450
	(8,186)	621
Change in funded status of pension plan:		
Amortization of net actuarial loss included in net income (2)	—	5
Tax effect	—	2
	—	3
Other comprehensive income (loss)	\$ (8,186)	\$ 624

(1) Reclassification adjustment represents net realized gains arising from the sale of available-for-sale securities. The net realized gains are included in the consolidated statements of income in the line item, “Net gains on sales of securities.” See “Note 4 – Investment Securities” for the income tax expense related to the net realized gains, which is included in the consolidated statements of income in the line item, “Income tax expense.”

(2) Represents the amortization of net actuarial loss relating to the Corporation’s defined benefit pension plan. This item is a component of net periodic pension cost (see “Note 7 – Defined Benefit Pension Plan”).

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

(in thousands)	Balance 12/31/17	Current Period Change due to		Balance 3/31/18
		Other Comprehensive Income (Loss)	Adoption of ASU 2018-02 (1)	
Unrealized holding gains (losses) on available-for-sale securities	\$ 2,600	\$ (8,186)	\$ 361	\$ (5,225)
Unrealized actuarial losses on pension plan	(2,054)	—	(638)	(2,692)

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Accumulated other comprehensive income (loss), net of tax	\$ 546	\$ (8,186)	\$ (277)	\$ (7,917)
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(1) The adoption of Accounting Standards Update (“ASU”) 2018-02 “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” in the first quarter of 2018 allowed the Corporation to reclassify certain stranded tax effects arising from the enactment of the Tax Cuts and Jobs Act (“Tax Act”) in December 2017 from accumulated other comprehensive income to retained earnings. See “Note 10 – Adoption of New Accounting Standards” for more information regarding the effects of adopting ASU 2018-02.

4 - INVESTMENT SECURITIES

The following tables set forth the amortized cost and estimated fair values of the Bank's investment securities.

(in thousands)	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity Securities:				
State and municipals	\$ 6,322	\$ 61	\$ —	\$ 6,383
Pass-through mortgage securities	303	20	—	323
Collateralized mortgage obligations	311	10	—	321
	\$ 6,936	\$ 91	\$ —	\$ 7,027
Available-for-Sale Securities:				
State and municipals	\$ 458,296	\$ 5,708	\$ (5,317)	\$ 458,687
Pass-through mortgage securities	75,248	44	(2,539)	72,753
Collateralized mortgage obligations	287,774	29	(5,403)	282,400
	\$ 821,318	\$ 5,781	\$ (13,259)	\$ 813,840
December 31, 2017				
Held-to-Maturity Securities:				
State and municipals	\$ 6,970	\$ 78	\$ —	\$ 7,048
Pass-through mortgage securities	311	21	—	332
Collateralized mortgage obligations	355	14	—	369
	\$ 7,636	\$ 113	\$ —	\$ 7,749
Available-for-Sale Securities:				
State and municipals	\$ 453,158	\$ 10,051	\$ (1,886)	\$ 461,323
Pass-through mortgage securities	72,539	84	(1,232)	71,391
Collateralized mortgage obligations	190,175	15	(2,776)	187,414
	\$ 715,872	\$ 10,150	\$ (5,894)	\$ 720,128

At March 31, 2018 and December 31, 2017, investment securities with a carrying value of \$516,412,000 and \$423,360,000, respectively, were pledged as collateral to secure public deposits and borrowed funds.

There were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity at March 31, 2018 and December 31, 2017.

Securities With Unrealized Losses. The following tables set forth securities with unrealized losses presented by the length of time the securities have been in a continuous unrealized loss position.

(in thousands)	March 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipals	\$ 148,446	\$ (2,855)	\$ 27,010	\$ (2,462)	\$ 175,456	\$ (5,317)
Pass-through mortgage securities	16,341	(423)	50,084	(2,116)	66,425	(2,539)
Collateralized mortgage obligations	185,753	(3,156)	51,202	(2,247)	236,955	(5,403)
Total temporarily impaired	\$ 350,540	\$ (6,434)	\$ 128,296	\$ (6,825)	\$ 478,836	\$ (13,259)
	December 31, 2017					
State and municipals	\$ 54,732	\$ (574)	\$ 28,723	\$ (1,312)	\$ 83,455	\$ (1,886)
Pass-through mortgage securities	10,172	(81)	52,652	(1,151)	62,824	(1,232)
Collateralized mortgage obligations	130,267	(1,230)	54,751	(1,546)	185,018	(2,776)
Total temporarily impaired	\$ 195,171	\$ (1,885)	\$ 136,126	\$ (4,009)	\$ 331,297	\$ (5,894)

Because the unrealized losses reflected in the preceding tables are deemed by management to be attributable to changes in interest rates and not credit losses, and because management does not have the intent to sell these securities and it is not more likely than not that it

will be required to sell these securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired at March 31, 2018.

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

(in thousands)	Three Months Ended	
	March 31, 2018	2017
Proceeds	\$ —	\$ 40,011
Gross gains	\$ —	\$ 366
Gross losses	—	(309)
Net gain	\$ —	\$ 57

Income tax expense related to the net realized gains for the three months ended March 31, 2017 was \$24,000.

Sales of Held-to-Maturity Securities. There were no sales of held-to-maturity securities during the three months ended March 31, 2018 and 2017.

Maturities. The following table sets forth by maturity the amortized cost and fair value of the Bank's state and municipal securities at March 31, 2018 based on the earlier of their stated maturity or, if applicable, their pre-refunded date. The remaining securities in the Bank's investment securities portfolio are mortgage-backed securities, consisting of pass-through mortgage securities and collateralized mortgage obligations. Although these securities are expected to have substantial periodic repayments they are reflected in the table below in aggregate amounts.

(in thousands)	Amortized	
	Cost	Fair Value
Held-to-Maturity Securities:		
Within one year	\$ 4,256	\$ 4,266
After 1 through 5 years	2,066	2,117

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After 5 through 10 years	—	—
After 10 years	—	—
Mortgage-backed securities	614	644
	\$ 6,936	\$ 7,027
Available-for-Sale Securities:		
Within one year	\$ 31,560	\$ 32,016
After 1 through 5 years	88,285	89,467
After 5 through 10 years	170,068	170,406
After 10 years	168,383	166,798
Mortgage-backed securities	363,022	355,153
	\$ 821,318	\$ 813,840

5 - LOANS

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

(in thousands)	March 31, 2018			Allowance for Loan Losses		
	Loans		Ending Balance	Allowance		Ending Balance
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial and industrial	\$ 41	\$ 108,700	\$ 108,741	\$ —	\$ 1,264	\$ 1,264
Commercial mortgages:						
Multifamily	—	714,731	714,731	—	6,769	6,769
Other	—	433,118	433,118	—	4,780	4,780
Owner-occupied	528	96,817	97,345	—	918	918
Residential mortgages:						
Closed end	1,352	1,691,981	1,693,333	17	20,649	20,666
Revolving home equity	—	81,673	81,673	—	682	682
Consumer and other	350	5,680	6,030	—	75	75
	\$ 2,271	\$ 3,132,700	\$ 3,134,971	\$ 17	\$ 35,137	\$ 35,154
	December 31, 2017					
Commercial and industrial	\$ 48	\$ 109,575	\$ 109,623	\$ —	\$ 1,441	\$ 1,441
Commercial mortgages:						
Multifamily	—	682,593	682,593	—	6,423	6,423
Other	—	414,783	414,783	—	4,734	4,734
Owner-occupied	531	95,100	95,631	—	1,076	1,076
Residential mortgages:						
Closed end	1,368	1,557,196	1,558,564	18	19,329	19,347
Revolving home equity	—	83,625	83,625	—	689	689
Consumer and other	—	5,533	5,533	—	74	74
	\$ 1,947	\$ 2,948,405	\$ 2,950,352	\$ 18	\$ 33,766	\$ 33,784

The following tables present the activity in the allowance for loan losses for the periods indicated.

(in thousands)	Balance at			Provision for Loan Losses (Credit)	Balance at
	1/1/18	Chargeoffs	Recoveries		
Commercial and industrial	\$ 1,441	\$ 74	\$ —	\$ (103)	\$ 1,264
Commercial mortgages:					

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Multifamily	6,423	—	—	346	6,769
Other	4,734	—	—	46	4,780
Owner-occupied	1,076	—	—	(158)	918
Residential mortgages:					
Closed end	19,347	20	1	1,338	20,666
Revolving home equity	689	49	—	42	682
Consumer and other	74	—	—	1	75
	\$ 33,784	\$ 143	\$ 1	\$ 1,512	\$ 35,154

(in thousands)	Balance at 1/1/17	Chargeoffs	Recoveries	Provision for Loan Losses (Credit)	Balance at 3/31/17
Commercial and industrial	\$ 1,408	\$ 6	\$ 3	\$ 122	\$ 1,527
Commercial mortgages:					
Multifamily	6,119	—	—	(313)	5,806
Other	4,296	—	—	7	4,303
Owner-occupied	959	—	—	39	998
Residential mortgages:					
Closed end	15,740	—	1	1,017	16,758
Revolving home equity	1,401	—	—	(62)	1,339
Consumer and other	134	—	—	(22)	112
	\$ 30,057	\$ 6	\$ 4	\$ 788	\$ 30,843

For individually impaired loans, the following tables set forth by class of loans at March 31, 2018 and December 31, 2017 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 three months ended March 31, 2018 and 2017. The recorded investment is the unpaid principal balance of the loans less any interest payments applied to principal and any direct chargeoffs plus or minus net deferred loan costs and fees. Any principal and interest payments received on nonaccrual impaired loans are applied to the recorded investment in the loans. The Bank recognizes interest income on other impaired loans using the accrual method of accounting.

(in thousands)	March 31, 2018			Three Months Ended March 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
With no related allowance recorded:					
Commercial and industrial	\$ 41	\$ 41	\$ —	\$ 99	\$ 1
Commercial mortgages - owner-occupied	528	611	—	552	6
Residential mortgages - closed end	1,085	1,094	—	1,141	1
Consumer and other	350	350	—	117	1
With an allowance recorded:					
Residential mortgages - closed end	267	267	17	286	3
Total:					
Commercial and industrial	41	41	—	99	1
Commercial mortgages - owner-occupied	528	611	—	552	6
Residential mortgages - closed end	1,352	1,361	17	1,427	4
Consumer and other	350	350	—	117	1
	\$ 2,271	\$ 2,363	\$ 17	\$ 2,195	\$ 12

(in thousands)	December 31, 2017			Three Months Ended March 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
With no related allowance recorded:					
Commercial and industrial	\$ 48	\$ 48	\$ —	\$ 99	\$ 2
Commercial mortgages - owner-occupied	531	615	—	552	4
Residential mortgages:					
Closed end	1,095	1,102	—	272	—

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Revolving home equity	—	—	—	280	—
With an allowance recorded:					
Residential mortgages:					
Closed end	273	272	18	621	12
Revolving home equity	—	—	—	1,483	—
Total:					
Commercial and industrial	48	48	—	99	2
Commercial mortgages - owner-occupied	531	615	—	552	4
Residential mortgages:					
Closed end	1,368	1,374	18	893	12
Revolving home equity	—	—	—	1,763	—
	\$ 1,947	\$ 2,037	\$ 18	\$ 3,307	\$ 18

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

(in thousands)	March 31, 2018				Total Past Due Loans & Nonaccrual Loans	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual Loans			
Commercial and industrial	\$ 305	\$ —	\$ —	\$ —	\$ 305	\$ 108,436	\$ 108,741
Commercial mortgages:							
Multifamily	—	—	—	—	—	714,731	714,731
Other	—	—	—	—	—	433,118	433,118
Owner-occupied	—	—	—	—	—	97,345	97,345
Residential mortgages:							
Closed end	993	823	—	992	2,808	1,690,525	1,693,333
Revolving home equity	831	118	—	—	949	80,724	81,673
Consumer and other	6	—	—	—	6	6,024	6,030
	\$ 2,135	\$ 941	\$ —	\$ 992	\$ 4,068	\$ 3,130,903	\$ 3,134,971
	December 31, 2017						
Commercial and industrial	\$ 20	\$ —	\$ —	\$ —	\$ 20	\$ 109,603	\$ 109,623
Commercial mortgages:							
Multifamily	—	—	—	—	—	682,593	682,593
Other	—	—	—	—	—	414,783	414,783
Owner-occupied	—	—	—	—	—	95,631	95,631
Residential mortgages:							
Closed end	2,186	21	—	1,000	3,207	1,555,357	1,558,564
Revolving home equity	522	—	—	—	522	83,103	83,625
Consumer and other	7	—	—	—	7	5,526	5,533
	\$ 2,735	\$ 21	\$ —	\$ 1,000	\$ 3,756	\$ 2,946,596	\$ 2,950,352

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

Troubled Debt Restructurings. A restructuring constitutes a troubled debt restructuring when it 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.

During the three months ended March 31, 2018, the Bank modified two consumer loans to a single borrower into one loan in a troubled debt restructuring amounting to \$350,000. The term of the restructured loan was extended for 12-months and the post-modification interest rate was lower than the current market rate for new debt with similar risk. The Bank did not modify any loans in troubled debt restructurings during the first three months of 2017.

At March 31, 2018 and December 31, 2017, the Bank had an allowance for loan losses of \$17,000 and \$18,000, respectively, allocated to specific troubled debt restructurings. The Bank had no commitments to lend additional amounts in connection with loans that were classified as troubled debt restructurings.

There were no troubled debt restructurings for which there was a payment default during the three months ended March 31, 2018 and 2017 that were modified during the twelve-month period prior to default. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Risk Characteristics. Credit risk within the Bank's loan portfolio primarily stems from factors such as changes in the borrower's financial condition, credit concentrations, changes in collateral values, economic conditions and environmental contamination of properties securing mortgage loans. The Bank's commercial loans, including those secured by real estate mortgages, are primarily made to small and medium-sized businesses. Such loans sometimes involve a higher degree of risk than those to larger companies because such businesses may have shorter operating histories, higher debt-to-equity ratios and may lack sophistication in internal record keeping and financial and operational controls. In addition, most of the Bank's loans are made to businesses and consumers on Long Island and

in the boroughs of New York City, and a large percentage of these loans are mortgage loans secured by properties located in those areas. The primary sources of repayment for residential and commercial mortgage loans include employment of the borrowers, the businesses of the borrowers and cash flows from the underlying properties. In the case of multifamily mortgage loans, a substantial portion of the underlying properties are rent stabilized or rent controlled. These sources of repayment are dependent on, among other things, the strength of the local economy.

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

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

Internally

Assigned

Risk
Rating

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

Risk ratings on commercial and industrial loans and commercial mortgages are initially assigned during the underwriting process and affirmed as part of the approval process. The ratings are periodically reviewed and evaluated based upon borrower contact, credit department review or independent loan review.

The Bank's loan risk rating and review policy establishes requirements for the annual review of commercial real estate and commercial and industrial loans. The requirements include details of the scope of coverage and selection process based on loan-type and risk rating. Among other things, at least 80% of the recorded investment of commercial real estate loans as of December 31 of the prior year must be reviewed annually. Lines of credit are also reviewed annually at each proposed reaffirmation. The frequency of the review of other loans is determined by the Bank's ongoing assessments of the borrower's condition.

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

Internally

Assigned

Risk Rating

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

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

March 31, 2018						
Internally Assigned Risk Rating						
(in thousands)	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	\$ 107,066	\$ 450	\$ 1,184	\$ 41	\$ —	\$ 108,741
Commercial mortgages:						
Multifamily	705,324	2,340	7,067	—	—	714,731
Other	408,393	6,164	18,561	—	—	433,118
Owner-occupied	94,450	—	2,367	528	—	97,345
	\$ 1,315,233	\$ 8,954	\$ 29,179	\$ 569	\$ —	\$ 1,353,935
December 31, 2017						
Commercial and industrial	\$ 108,846	\$ 450	\$ 279	\$ 48	\$ —	\$ 109,623
Commercial mortgages:						
Multifamily	673,128	2,354	7,111	—	—	682,593
Other	404,379	7,567	2,837	—	—	414,783
Owner-occupied	93,618	—	1,482	531	—	95,631
	\$ 1,279,971	\$ 10,371	\$ 11,709	\$ 579	\$ —	\$ 1,302,630

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

March 31, 2018						
Internally Assigned Risk Rating						
(in thousands)	Pass	Watch	Special Mention	Substandard	Doubtful	Total
Residential mortgages:						
Closed end	\$ 1,688,977	\$ 2,181	\$ 823	\$ 1,352	\$ —	\$ 1,693,333
Revolving home equity	80,967	4	702	—	—	81,673
Consumer and other	5,288	—	—	350	—	5,638
	\$ 1,775,232	\$ 2,185	\$ 1,525	\$ 1,702	\$ —	\$ 1,780,644
December 31, 2017						

Residential mortgages:

Closed end	\$ 1,554,168	\$ 2,200	\$ 828	\$ 1,368	\$ —	\$ 1,558,564
Revolving home equity	82,665	256	704	—	—	83,625
Consumer and other	5,236	—	—	—	—	5,236
	\$ 1,642,069	\$ 2,456	\$ 1,532	\$ 1,368	\$ —	\$ 1,647,425

Deposit account overdrafts were \$392,000 and \$297,000 at March 31, 2018 and December 31, 2017, respectively. Overdrafts are not assigned a risk rating and are therefore excluded from consumer loans in the tables above.

6 - STOCK-BASED COMPENSATION

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

2014 Plan. Under the 2014 Plan, awards may be granted to employees and non-employee directors as non-qualified stock options (“NQSOs”), stock appreciation rights (“SARs”), restricted stock awards, RSUs, or any combination thereof, any of which may be subject to performance-based vesting conditions. Awards may also be granted to employees as incentive stock options (“ISOs”). The exercise price of stock options and SARs granted under the 2014 Plan may not be less than the fair market value of the Corporation’s common stock on the date the stock option is granted. The 2014 Plan is administered by the Compensation Committee of the Board of Directors. Almost all of the awards granted to date under the 2014 Plan are RSUs. All awards granted under the 2014 Plan will immediately vest upon an involuntary termination following a change in control, total and permanent disability, as defined, or death, and with certain exceptions, will immediately vest in the event of retirement, as defined.

The Corporation has 2,250,000 shares of common stock reserved for awards under the 2014 Plan. Awards granted under the 2006 Plan that expire or are forfeited after April 22, 2014 will be added to the number of shares of common stock reserved for issuance of awards under the 2014 Plan. All of the 2,250,000 shares may be issued upon the exercise of stock options or SARs. A maximum of 787,500 shares may be issued as restricted stock awards or upon the conversion of RSUs. At March 31, 2018, 1,862,574 equity awards remain available to be granted under the 2014 Plan of which 383,761 may be granted as restricted stock awards or RSUs.

Details of RSUs. The following table summarizes the vesting schedule of RSUs outstanding at March 31, 2018 by the year they were originally granted.

	Total	Granted During the Year Ended December 31,			
		2018	2017	2016	2015
Number of RSUs :					
Granted during the year	385,159	70,688	94,329	107,274	112,868
Outstanding at March 31, 2018	243,631	70,688	82,884	83,528	6,531
Scheduled to vest during:					
2018	98,594	16,081	—	75,982	6,531
2019	99,658	22,904	69,208	7,546	—
2020	19,207	8,781	10,426	—	—
2021	26,172	22,922	3,250	—	—
Total RSUs outstanding	243,631	70,688	82,884	83,528	6,531

The RSUs in the table above include performance-based RSUs with vesting based on the financial performance of the Corporation in 2018 and 2019 and service-based RSUs with various service-based vesting periods. The grant date fair value of RSUs awarded in 2016 is equal to the market price of the shares underlying the awards on the grant date. RSUs awarded in 2016 accrue dividends at the same rate as dividends declared by the Board of Directors on the Corporation's common stock. The grant date fair value of RSUs awarded in 2015, 2017 and 2018 is equal to the market price of the shares underlying the awards on the grant date, discounted for dividends that are not paid on these RSUs.

The following table presents a summary of RSUs outstanding at March 31, 2018 and changes during the three month period then ended.

	Number of	Weighted- Average Grant-Date Fair Value	Weighted- Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2018	RSUs 274,134	\$ 19.64		
Granted	70,688	27.10		
Converted	(101,191)	15.52		
Outstanding at March 31, 2018	243,631	\$ 23.51	1.39	\$ 6,688
Vested and Convertible at March 31, 2018	—	\$ —	—	\$ —

The performance-based RSUs granted in 2018 and 2017 have a maximum payout potential of 1.50 and 1.25 shares of the Corporation's common stock, respectively, for each RSU awarded. All other RSUs outstanding at March 31, 2018 have a maximum payout potential of one share of the Corporation's common stock for each RSU awarded. All of the RSUs outstanding at March 31, 2018 are currently expected to vest and become convertible in the future. The total intrinsic value of RSUs converted during the first three months of 2018 and 2017 was \$2,884,000 and \$1,650,000, respectively.

2006 Plan. The 2006 Plan was approved by the stockholders of the Corporation on April 18, 2006. The 2006 Plan permitted the granting of stock options, SARs, restricted stock awards and RSUs to employees and non-employee directors. Under the terms of the 2006 Plan, stock options and SARs could not have an exercise price that was less than 100% of the fair market value of one share of the underlying common stock on the date of grant. Through December 31, 2011, equity grants to executive officers and directors under the 2006 Plan consisted of a combination of NQSOs and RSUs, while equity grants to other officers consisted solely of NQSOs. Beginning in 2012, equity grants under the 2006 Plan consisted solely of RSUs. Stock options granted under the 2006 Plan have a five year vesting period and a ten year term.

Fair Value of Stock Options. The grant date fair value of options was estimated on the date of grant using the Black-Scholes option pricing model. Substantially all outstanding stock options were expensed in prior years.

Stock Option Activity. The following table presents a summary of options outstanding at March 31, 2018, and changes during the three month period then ended.

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (yrs.)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2018	159,807	\$ 11.35		
Exercised	(10,489)	9.23		
Forfeited or expired	—	—		
Outstanding at March 31, 2018	149,318	\$ 11.50	1.94	\$ 2,382
Exercisable at March 31, 2018	148,868	\$ 11.48	1.92	\$ 2,377

All options outstanding at March 31, 2018 are either fully vested or expected to vest. The total intrinsic value of options exercised during the first three months of 2018 and 2017 was \$205,000 and \$255,000, respectively.

Compensation Expense. The Corporation recorded compensation expense for share-based payments of \$1,128,000 and \$747,000 and recognized related income tax benefits of \$340,000 and \$314,000 for the three months ended March 31, 2018 and 2017, respectively.

Unrecognized Compensation Cost. As of March 31, 2018, there was \$2,201,000 of total unrecognized compensation cost related to non-vested equity awards comprised of \$2,000 for stock options and \$2,199,000 for RSUs. The total cost is expected to be recognized over a weighted-average period of 1.2 years, which is based on weighted-average periods of 2.2 years and 1.2 years for stock options and RSUs, respectively.

Cash Received and Tax Benefits Realized. Cash received from stock option exercises for the three months ended March 31, 2018 and 2017 was \$96,000 and \$136,000, respectively. Tax benefits from stock option exercises for the three months ended March 31, 2018 and 2017 were \$52,000 and \$107,000, respectively.

Other. No cash was used to settle stock options during the first three months of 2018 or 2017. The Corporation uses newly issued shares to settle stock option exercises and for the conversion of RSUs. During the first quarter of 2018, 557 shares of the Corporation's common stock were issued to a member of the Board of Directors in payment of

director fees.

7 - DEFINED BENEFIT PENSION PLAN

The following table sets forth the components of net periodic pension cost (credit).

(in thousands)	Three Months Ended March 31,	
	2018	2017
Service cost	\$ 342	\$ 304
Interest cost	397	398
Expected return on plan assets	(819)	(736)
Amortization of net actuarial loss	—	5
Net pension cost (credit)	\$ (80)	\$ (29)

As a result of the adoption of ASU 2017-07, for all periods presented, the components of net pension cost (credit) other than the service cost component were included in the line item “Other noninterest income” in the consolidated statements of income. The service cost component was included in the line item “Salaries” in the consolidated statements of income. See “Note 10 – Adoption of New Accounting Standards” for more information regarding the provisions of ASU 2017-07.

The Bank makes cash contributions to the pension plan (“Plan”) which comply with the funding requirements of applicable federal laws and regulations. For funding purposes, the laws and regulations set forth both minimum required and maximum tax-deductible contributions. The Bank has no minimum required pension contribution for the Plan year ending September 30, 2018 and it cannot make a tax-deductible contribution for the tax year beginning January 1, 2018.

8 - 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 during the three months ended March 31, 2018 or 2017.

The fair values of the Corporation's investment securities designated as available-for-sale at March 31, 2018 and December 31, 2017 are set forth in the tables that follow. These values are determined on a recurring basis using matrix pricing (Level 2 inputs). Matrix pricing, which is a mathematical technique widely used in the industry to value debt securities, does not rely exclusively on quoted prices for the specific securities but rather on the relationship of such securities to other benchmark quoted securities.

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)	Total			
March 31, 2018:				

Available-for-Sale Securities:

State and municipals	\$ 458,687	\$ —	\$ 458,687	\$ —
Pass-through mortgage securities	72,753	—	72,753	—
Collateralized mortgage obligations	282,400	—	282,400	—
	\$ 813,840	\$ —	\$ 813,840	\$ —

December 31, 2017:

Available-for-Sale Securities:

State and municipals	\$ 461,323	\$ —	\$ 461,323	\$ —
Pass-through mortgage securities	71,391	—	71,391	—
Collateralized mortgage obligations	187,414	—	187,414	—
	\$ 720,128	\$ —	\$ 720,128	\$ —

Assets measured at fair value on a nonrecurring basis at December 31, 2017, are set forth in the table that follows. There were no assets measured at fair value on a nonrecurring basis at March 31, 2018. Real estate appraisals utilized in measuring the fair value of impaired loans, if any, may employ a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. In arriving at fair value, the Corporation adjusts the value set forth in the appraisal by deducting costs to sell and a distressed sale adjustment when appropriate. The adjustments made by the appraisers and the Corporation are deemed to be significant unobservable inputs and therefore result in a Level 3 classification of the inputs used for determining the fair value of impaired loans.

Fair Value Measurements Using:
Quoted
Prices Significant
in
Active Other Significant
Markets
for Observable Unobservable