



**NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION
One State Street
New York, NY 10004**

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2008

**Institution: Bank of Smithtown
100 Motor Parkway
Hauppauge, NY 11788**

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Banking Department concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of the Bank of Smithtown (“BoS”) prepared by the New York State Banking Department. The evaluation represents the Banking Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2008.

Section 28-b of the New York State Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Banks shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low and moderate income areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Banking Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) outstanding record of meeting community credit needs;
- (2) satisfactory record of meeting community credit needs;
- (3) needs to improve record of meeting community credit needs; and
- (4) substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary be made available to the public (“Evaluation”). Evaluations are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 – 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

For explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

OVERVIEW OF INSTITUTION’S PERFORMANCE

Bank of Smithtown’s (“BoS”) performance was evaluated according to the lending, service and investment performance criteria.

BoS is rated “2,” indicating a “Satisfactory” record of helping to meet community credit needs.

BoS’s rating is unchanged from the prior NYSBD rating performance evaluation dated December 31, 2005. BoS’s rating is based on the following factors:

<u>Performance Levels</u>	<u>Bank of Smithtown</u>		
	<u>Performance Tests</u>		
	<u>Lending Test</u>	<u>Investment Test</u>	<u>Service Test</u>
<u>Outstanding</u>			
<u>High Satisfactory</u>	<u>X</u>		
<u>Low Satisfactory</u>		<u>X</u>	<u>X</u>
<u>Needs to Improve</u>			
<u>Substantial Non-Compliance</u>			

The major factors supporting this rating include:

Lending Test: “High Satisfactory”

The bank was evaluated based on its origination of small business and HMDA-reportable loans during the evaluation period. Although the bank made substantially more small business loans, considerably more dollars were lent through HMDA-reportable lending. The result was more than twice as many small business loans by number, but more than four times as many dollars lent through HMDA.

- **Lending Activity: “High Satisfactory”**

BoS’s lending levels reflected good responsiveness to the assessment area’s credit needs given its size and financial condition and the highly competitive market in which it operates.

BoS’s small business lending level reflected good responsiveness. For both 2006 and 2007, BoS was ranked 28th among the 132-133 lenders, while it was ranked 25th among 124 lenders in 2005.

BoS’s HMDA lending level also reflected good responsiveness. HMDA lending activity in the assessment area, which had been rated adequate at the last exam, has grown slightly in terms of annualized number of loans and has grown significantly in terms of dollars lent. BoS’s ranking has improved, from 188th in 2005 (among 445 lenders) to 169th (445 lenders) in 2006 and 148th (402 lenders) in 2007.

- **Assessment Area Concentration: “Low Satisfactory”**

While BoS was an active lender within its assessment area, as demonstrated by the market share data above, its assessment area concentration was only adequate. When HMDA and small business loans are combined, the majority of loans, by number, were made in the assessment area, but the majority of the dollars were lent outside. While small business lending in the assessment area reflected a high percentage for both numbers and dollars, HMDA reflected a small percentage in terms of numbers and a very small percentage in terms of dollars of BoS’s lending activity.

- **Borrower Characteristics: “High Satisfactory”**

Overall, BoS had a good penetration rate of lending to customers of different income levels and businesses of different sizes. The distribution of small business loans reflected excellent penetration among businesses of different revenue categories, while in HMDA-related lending, the bank’s performance reflected poor dispersion of loans among consumers of different income levels.

BoS’s performance based on the distribution of its small business loans by revenue size of the business was excellent. In 2006 and 2007, BoS achieved a higher penetration rate for lending to businesses with gross annual revenue (“GAR”) of \leq \$1MM than the aggregate’s penetration rate. The penetration rate for number of loans exceeded the aggregate by 10-15 pps.

The distribution of the bank’s 1-4 family HMDA-reportable loans reflected poor penetration among borrowers of different income levels. The lending penetration rate for LMI borrowers dropped each year, from 17.7% in 2006 to 12% in 2007 to 0% in 2008. The downward trend, together with an assessment penetration rate average that is half that of the aggregate’s, drive this rating.

- **Geographic Distribution of Loans: “High Satisfactory”**

Overall, BoS had a good penetration rate of lending across census tracts of varying income levels, especially LMI tracts. BoS’s lending performance reflected excellent dispersion of small business loans among census tracts of different income levels. In HMDA-reportable lending, BoS’s performance was adequate.

The geographic distribution of small business loans reflected excellent penetration throughout the assessment area. In 2006, BoS’s penetration rate roughly matched the aggregate penetration rate. BoS’s lending in LMI geographies trended upwards; in 2007, BoS exceeded the aggregate. BoS’s penetration rate went still higher in 2008.

The geographic distribution of HMDA-reportable loans reflected adequate dispersion among census tracts of different income levels. In 2006 and 2007, BoS’s penetration rate was below the aggregate’s rate. However, in 2008, for which aggregate data were not available, BoS’s penetration rate soared to 45.5% in LMI geographies.

- **Community Development Lending Activity: “Low Satisfactory”**

BoS had an adequate level of community development (“CD”) loans and commitments. Since the previous evaluation, BoS made \$10.1MM of new CD loans and commitments. Three loans were used to fund commercial real estate projects that promote economic development, one loan provided acquisition and construction financing to an affordable rental housing property, and one loan was extended to a business development corporation.

- **Innovative or Flexible Lending Practices: “Low Satisfactory”**

BoS made limited use of flexible and innovative lending products.

Investment Test: “Low Satisfactory”

BoS had an adequate level of community development investments. At this evaluation, qualified investments totaled \$2.5 million, of which, 20% represented new money. However, although BoS’s qualified investments increased by 25% since the prior evaluation, during the same period of time, BoS’s asset size has also more than doubled to \$1.9 billion from \$878 million at the previous evaluation. Additionally, BoS’s qualified investments were neither innovative nor complex.

Service Test: “Low Satisfactory”

BoS has reasonably accessible delivery systems, (branch network, branch hours and services), and alternative delivery systems. It provides an adequate level of community development services within its assessment area.

During the evaluation period, BoS opened six branches, of which, three are located in middle-income and three in upper-income geographies.

The volume of community development services BoS provided was adequate. During the evaluation period, several bank and insurance affiliate officers volunteered their time and provided their financial expertise to community development organizations operating in the assessment area.

This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York State Banking Law and Part 76 of the General Regulations of the Banking Board.

PERFORMANCE CONTEXT

Institution's Profile:

Chartered in 1910, Bank of Smithtown ("BoS") is a full-service commercial bank based in Smithtown in Suffolk County, New York. Products offered by BoS include a complete range of commercial and consumer financial services.

BoS is wholly owned by Smithtown Bancorp, Inc., a one-bank holding company. BoS, in turn, is the parent of a wholly-owned insurance subsidiary, Bank of Smithtown Insurance Agents and Brokers, Inc. The community development services performed by an officer of this subsidiary were considered at this performance evaluation.

In addition to its head office, BoS operates 16 branches located in various towns of Suffolk County, two branches in the Town of North Hempstead in Nassau County, and a branch in Garden City, also in Nassau County. All of these offices are equipped with 24-hour, deposit-taking automated teller machines (ATM's). BoS does not have any offsite ATM's.

As per the Federal Deposit Insurance Corporation's ("FDIC") Consolidated Report of Condition (the Call Report) as of December 31, 2008, BoS had total assets of \$1.9 billion, of which \$1.7 billion or 90% consisted of net loans and leases. As of the same date, total deposits were \$1.4 billion, resulting in a loan-to-deposit ("LTD") ratio of 121.4%. According to the latest available comparative deposit data, dated June 30, 2008, BoS obtained a market share of 1.3% or \$1.1 billion out of \$87.4 billion, inside its market, ranking it 14th among 47 other deposit-taking institutions in its assessment area.

BoS is primarily a commercial real estate lender, with commercial mortgage loans comprising almost 45% of its loan portfolio as of the evaluation date. As shown in the table below, during the evaluation period, multifamily lending became a bigger part of BoS's portfolio. These loans, together with 1-4 residential mortgages account for a combined 28.8% share of the bank's loan portfolio.

The following is a summary of the BoS's lending portfolio, based on Schedule RC-C of its December 31, 2006, December 31, 2007 and December 31, 2008 Call Reports:

TOTAL GROSS LOANS OUTSTANDING						
LOAN TYPE	12/31/2006		12/31/2007		12/31/2008	
	\$000	%	\$000	%	\$000	%
1-4 Residential Mortgage Loans	130,900	15.4	123,369	12.5	183,632	10.8
Commercial & Industrial Loans	43,775	5.1	48,124	4.9	51,630	3.0
Commercial Mortgage Loans	391,757	46.0	425,983	43.2	760,125	44.9
Multifamily Mortgages	60,650	7.1	88,240	8.9	304,939	18.0
Consumer Loans	2,472	0.3	3,671	0.4	2,004	0.1
Construction Loans	219,641	25.8	296,397	30.0	390,066	23.0
Other Loans	2,062	0.2	726	0.1	403	0.0

There are no known financial or legal impediments that adversely impacted the bank's ability to meet the credit needs of its community.

Assessment Area:

BoS's assessment area includes all of Suffolk County and certain portions of Nassau County. During the evaluation period, BoS opened a branch in Garden City in Nassau County, resulting in the addition of three new census tracts to its assessment area. Altogether, the assessment area consists of 372 census tracts, of which, 2 (0.5%) are low income, 65 (17.5%) are moderate-income, 223 (59.9%) are middle-income, 74 (19.9%) are upper-income, and 8 (2.2%) are zero-income tracts.

Distribution of Assessment Area Census Tracts by Income Level - 2005							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
Suffolk	8	2	64	197	49	320	20.6
Nassau*	0	0	1	26	25	52	1.9
Total	8	2	65	223	74	372	18.0

*Partial County

The assessment area appears reasonable based upon the location of bank's offices and its lending patterns. There is no evidence that LMI areas have been arbitrarily excluded.

Demographic & Economic Data:

According to the 2000 U.S. Census data, 16.9% of the 440.3 thousand owner-occupied units in the assessment area are located in LMI geographies. There are 426.5 thousand families in the assessment area, of which 37.7% are low-to-moderate income. Approximately, 5.5% of all households in the assessment area are below the poverty level.

According to the 2008 Business Demographic Data report, there are 181.6 thousand non-farm businesses in the assessment area, of which 69% are small businesses with GAR of \leq \$ 1MM. Approximately 17.1% of all non-farm businesses are located in LMI census tracts.

According to the Bureau of Labor Statistics, the average unemployment rate (not seasonally adjusted) for New York State was 4.6% in 2006, 4.5% in 2007, and 5.4% in 2008. Both Suffolk and Nassau Counties had average unemployment rates lower than New York State's.

The following table summarizes the 2006, 2007 and 2008 average unemployment rates (not seasonally adjusted) for the two counties in BoS's assessment area:

Year	N.Y. State	Suffolk	Nassau
2006	4.6	4.0	3.8
2007	4.5	3.8	3.6
2008	5.4	5.0	4.7

PERFORMANCE TESTS AND ASSESSMENT FACTORS

The Banking Department assesses a large bank's CRA performance by evaluating its lending, investment and service activities within the assessment area in accordance with Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board.

BoS's performance was evaluated according to the large bank performance criteria, which include lending, investment and service tests. The following factors were also considered in assessing BoS's record of performance: the extent of participation by the Board of Directors or Board of Trustees in formulating CRA policies and reviewing CRA performance; any practices intended to discourage credit applications, evidence of prohibited discriminatory or other illegal credit practices; and process factors such as activities to ascertain credit needs and the extent of marketing and special credit related programs. Finally, the evaluation considered other factors as delineated in Section 28-b of the Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

The assessment period included calendar years 2006, 2007 and 2008. BoS reports both HMDA and CRA small business data. Within the lending test, the factors distribution by borrower characteristics and income of the geography, only consider loans within BoS's assessment area. The 2008 HMDA-reportable and small business loan aggregate data were not available when this evaluation was conducted.

Statistics employed in this evaluation were derived from various sources. In addition to bank-specific loan information submitted by BoS, aggregate data for small business and HMDA-reportable loans were obtained from the Federal Financial Institutions Examination Council ("FFIEC"). The demographic data referred to in this report were derived from the 2000 US Census Data, with the updated median family income figures provided by the US Department of Housing and Urban Development ("HUD"). Business demographic data used in this report are information on US businesses, enhanced by Dun & Bradstreet and updated annually.

CRA Rating: "Satisfactory"¹

I. Lending Test: "High Satisfactory"

The bank's lending performance was evaluated pursuant to the following criteria: (1) Lending Activity; (2) Geographic Distribution, including assessment area concentration and the dispersion of lending, including in census tracts of various income levels; (3) Borrower Characteristics; (4) Community Development Lending and (5) Flexible and/or Innovative Lending Practices.

The bank was evaluated based on its origination of small business and HMDA-reportable loans during the evaluation period. Although the bank made substantially more small

1. BoS's rating is unchanged from the prior NYSBD rating performance evaluation dated December 31, 2005.

business loans, substantially more dollars were lent through HMDA-reportable lending. The result was more than twice as many small business loans by number, but more than four times as many dollars lent through HMDA.

Lending Activity: “High Satisfactory”

BoS’s lending levels reflected good responsiveness to the assessment area’s credit needs given its size and financial condition and the highly competitive market in which it operates.

BoS’s small business lending level reflected good responsiveness. For both 2006 and 2007, BoS was ranked 28th among the 132-133 lenders, while it was ranked 25th among 124 lenders in 2005.

In 2006, based on number of loans, BoS had a market share of 0.07%. In 2007, BoS had a market share of 0.06%. Many of the lenders with higher market shares are major small business credit card lenders. On an annualized basis, the number and dollars of small business lending within BoS’s assessment area decreased since the last exam. However, as noted above, market share data show little change.

BoS’s HMDA lending level also reflected good responsiveness, HMDA lending activity in the assessment area, which had been rated adequate at the last exam, has grown slightly in terms of annualized number of loans and has grown significantly in terms of dollars lent. BoS’s ranking has improved, from 188th in 2005 (among 445 lenders) to 169th (445 lenders) in 2006 and 148th (402 lenders) in 2007.

Although there was a decrease in dollars in 2007, this was a one-year phenomenon, as lending increased above the 2006 level in 2008. Market share based on number of loans has grown from 0.03% in 2005 to 0.05% in 2006 and 2007.

Assessment Area Concentration: “Low Satisfactory”

While BoS was an active lender within its assessment area, as demonstrated by the market share data above, its assessment area concentration was only adequate. When HMDA and small business loans are combined, the majority of loans, by number, were made in the assessment area, but the majority of the dollars were lent outside. While small business lending in the assessment area reflected a high percentage for both numbers and dollars, HMDA reflected a small percentage in terms of numbers and a very small percentage in terms of dollars.

Small Business Loans: “High Satisfactory”

BoS originated a substantial majority of its small business loans in the assessment area. In each year of the evaluation period, more than 85% of its small business loans were originated in the assessment area. Overall, for the evaluation period, BoS’s assessment area concentration ratios in small business loans were 86.4% by number and 75.4% by dollar value.

HMDA-Reportable Loans: "Needs to Improve"

During the evaluation period, BoS originated a small percentage of its HMDA-reportable loans in the assessment area by number and lent a very small percentage of dollars in the assessment area. BoS's assessment area concentration for HMDA lending also trended downward. In 2006, BoS originated a majority of loans (by both number and dollars) within its assessment area. However, in 2007, while a majority of the number of loans was within its assessment area, most of the dollars were lent outside of its assessment area. In 2008, the majority of loans, by both numbers and dollars, were lent outside of its assessment area. Averaged over the three years, only 45.3% of the number of HMDA loans and 22.1% of the dollar value of HMDA loans were within its assessment area.

Multifamily loans account for most of the dollars lent outside of the assessment area. Whether measuring number of loans or dollars lent, a substantial majority was lent outside of the assessment area (90% by number and 86% by dollars). The majority of 1-4 family loans were made in the assessment area, but again, a majority of the dollars was lent outside of the assessment area. The average loan size for 1-4 family loans in the assessment area was .5MM, while outside the assessment area it was \$1.5MM.

The following table shows the percentage of BoS's small business and HMDA-reportable loans originated inside and outside of the assessment area, as well as a breakdown of HMDA-reportable loans for 1-4 family and multifamily properties:

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$000	%	\$000	%	\$
Small Business Loans										
2006	155	86.1	25	13.9	180	27,142	70.0	11,616	30.0	38,758
2007	120	85.1	21	14.9	141	26,681	80.8	6,322	19.2	33,003
2008	138	87.9	19	12.1	157	23,726	76.4	7,347	23.6	31,073
Subtotal	413	86.4	65	13.6	478	77,549	75.4	25,285	24.6	102,834
HMDA-Reportable Loans										
2006	36	67.9	17	32.1	53	40,326	65.3	21,405	34.7	61,731
2007	26	54.2	22	45.8	48	12,926	21.3	47,835	78.7	60,761
2008	44	33.1	89	66.9	133	49,027	14.5	290,255	85.5	339,282
Subtotal	106	45.3	128	54.7	234	102,279	22.1	359,495	77.9	461,774
Total	519	72.9	193	27.1	712	179,828	31.9	384,780	68.1	564,608
HMDA Loans Only - Distribution of Loans Inside and Outside of the Assessment Area										
1 - 4 Family Loans										
2006	34	85.0	6	15.0	40	19,858	85.5	3,365	14.5	23,223
2007	25	83.3	5	16.7	30	11,776	60.4	7,723	39.6	19,499
2008	38	54.3	32	45.7	70	22,726	30.1	52,667	69.9	75,393
Subtotal	97	69.3	43	30.7	140	54,360	46.0	63,755	54.0	118,115
Multifamily Loans										
2006	2	15.4	11	84.6	13	20,468	53.2	18,040	46.8	38,508
2007	1	5.6	17	94.4	18	1,150	2.8	40,112	97.2	41,262
2008	6	9.5	57	90.5	63	26,301	10.0	237,588	90.0	263,889
Subtotal	9	9.6	85	90.4	94	47,919	13.9	295,740	86.1	343,659
Total	106	45.3	128	54.7	234	102,279	22.1	359,495	77.9	461,774

Borrower Characteristics: “High Satisfactory”

Overall, BoS had a good penetration rate of lending to customers of different income levels and businesses of different sizes. The distribution of small business loans reflected excellent penetration among businesses of different revenue categories, while in HMDA-related lending, the bank’s performance reflected a poor dispersion of loans among consumers of different income levels.

Small Business Loans: “Outstanding”

BoS’s performance based on the distribution of its small business loans by revenue size of the business was excellent.

In 2006 and 2007, BoS achieved a higher penetration rate for lending to businesses with GAR of \leq \$1MM than the aggregate’s penetration rate. The penetration rate for number of loans exceeded the aggregate by 10-15 pps.

In 2006, 39.4% of the small business loans originated in the assessment area were extended to businesses with GAR of \leq \$ 1MM. In comparison, the market aggregate extended only 29.6% of its small business loans to similar-sized businesses. BoS continued to outperform the market aggregate in 2007 during which 48.3% of its small business loans were extended to businesses with this revenue size. The corresponding ratio for the market aggregate was 31.7%. In 2008, only 39.9% of BoS’s small business loans were extended to businesses with GAR of \leq \$ 1MM. Despite exceeding the aggregate’s penetration rate of lending to businesses with GAR of \leq \$1MM, BoS lagged the business demographics; approximately 69% of businesses in its assessment area have GAR of \leq \$ 1MM.

The following table illustrates the distribution of loans based on business revenue size:

Distribution of Small Business Loans by Business Revenue Size									
2006									
Revenue	Bank				Aggregate				Bus. Demographics
Size	#	%	\$000	%	#	%	\$000	%	%
<= \$ 1MM	61	39.4	10,672	39.3	40,025	29.6	977,112	39.5	68.2%
> \$1MM	57	36.8	9,357	34.5	-	-	-	-	6.0%
No Revenue Info	37	23.9	7,113	26.2	-	-	-	-	25.8%
Total	155	100.0	27,142	100.0	135,152	100.0	2,471,062	100.0	100.0%
2007									
Revenue	Bank				Aggregate				Bus. Demographics
Size	#	%	\$000	%	#	%	\$000	%	%
<= \$ 1MM	58	48.3	13,798	51.7	43,261	31.7	1,036,896	37.8	70.1%
> \$1MM	45	37.5	8,935	33.5	-	-	-	-	6.0%
No Revenue Info	17	14.2	3,948	14.8	-	-	-	-	23.9%
Total	120	100.0	26,681	100.0	136,562	100.0	2,743,268	100.0	100.0%
2008									
Revenue	Bank				Aggregate				Bus. Demographics
Size	#	%	\$000	%	#	%	\$000	%	%
<= \$ 1MM	55	39.9	8,088	34.1	Not available				69.0%
> \$1MM	55	39.9	8,001	33.7					5.6%
No Revenue Info	28	20.3	7,637	32.2					25.4%
Total	138	100.0	23,726	100.0					100.0%

1-4 Family HMDA-Reportable Loans: "Needs to Improve"

The distribution of the bank's 1-4 family HMDA-reportable loans reflected poor penetration rates among borrowers of different income levels. The lending penetration rate for LMI borrowers dropped each year, from 17.7% in 2006 to 12% in 2007 to 0% in 2008. The downward trend, together with an evaluation period penetration rate average that is half that of the aggregate, drive this rating.

BoS's performance in lending to LMI borrowers also does not compare well to the demographics of the assessment area where LMI families, even after adjusting for households below the poverty level, comprised 32.2% of all families. The following table shows the distribution of BoS's HMDA-reportable loans based on borrower income levels:

^Distribution of 1-4 Family HMDA-reportable Loans by Borrower Income Level									
2006									
Borrower Income Level	Bank				Aggregate				Fam. Demographics
	#	%	\$000	%	#	%	\$000	%	
Low	2	5.9	715	3.6	2,291	3.1	285,888	1.4	18.5%
Moderate	4	11.8	565	2.8	9,751	13.2	1,745,083	8.3	19.2%
Middle	0	0.0	0	0.0	24,402	33.0	5,380,596	25.6	24.4%
Upper	18	52.9	11,725	59.0	33,513	45.4	12,349,537	58.9	37.9%
Not Available	10	29.4	6,853	34.5	3,898	5.3	1,216,091	5.8	
Total	34	100.0	19,858	100.0	73,855	100.0	20,977,195	100.0	100.0%
2007									
Borrower Income Level	Bank				Aggregate				Fam. Demographics
	#	%	\$000	%	#	%	\$000	%	
Low	0	0.0	0	0.0	1,645	3.2	192,770	1.2	18.5%
Moderate	3	12.0	336	2.9	8,251	16.0	1,539,835	9.8	19.2%
Middle	2	8.0	310	2.6	15,852	30.8	3,712,262	23.6	24.4%
Upper	15	60.0	8,095	68.7	23,180	45.0	9,322,408	59.4	37.9%
Not Available	5	20.0	3,035	25.8	2,576	5.0	936,252	6.0	
Total	25	100.0	11,776	100.0	51,504	100.0	15,703,527	100.0	100.0%
2008									
Borrower Income Level	Bank				Aggregate				Fam. Demographics
	#	%	\$000	%	#	%	\$000	%	
Low	0	0.0	0	0.0	Not available				18.5%
Moderate	0	0.0	0	0.0					19.2%
Middle	4	10.5	1,055	4.6					24.4%
Upper	25	65.8	14,439	63.5					37.9%
Not Available	9	23.7	7,232	31.8					
Total	38	100.0	22,726	100.0					100.0%

^ Chart does not include multi-family lending, which is included in HMDA chart for income of geography.

Geographic Distribution of Loans: “High Satisfactory”

Overall, BoS had a good penetration rate of lending in LMI geographies. BoS’s lending performance reflected excellent dispersion of small business loans among census tracts of different income levels. In HMDA-reportable lending, BoS’s performance was adequate.

Small Business Loans: “Outstanding”

The geographic distribution of small business loans reflected excellent penetration throughout the assessment area. In 2006, BoS’s penetration rate roughly matched the aggregate penetration rate. BoS’s lending in LMI geographies trended upwards; in 2007, BoS exceeded the aggregate. BoS’s penetration rate went still higher in 2008.

In 2006, BoS originated 14.8%, by number, of its small business loans in LMI geographies. This level of performance is comparable to the market aggregate’s and was just below the

16.7% of demographics of non-farm businesses. BoS's LMI penetration rate increased to 20.8% in 2007 and again to 25.4% in 2008. In 2007, the market aggregate LMI geography penetration rate was 15.9%. The LMI penetration rates BoS achieved in 2007 and 2008 also compared favorably to the demographics of non-farm businesses. The following table shows the geographic distribution of small business loans for 2006, 2007 and 2008:

Distribution of Small Business Loans by Geographic Income Level									
2006									
Geography	Bank				Aggregate				Bus. Demographics
Income Level	#	%	\$000	%	#	%	\$000	%	
Low	0	0.0	0	0.0	464	0.3	10,971	0.4	0.4%
Moderate	23	14.8	4,549	16.8	20,520	15.2	405,113	16.4	16.3%
Middle	97	62.6	15,443	56.9	81,559	60.3	1,462,626	59.2	59.3%
Upper	35	22.6	7,150	26.3	32,602	24.1	592,089	24.0	24.0%
Total	155	100.0	27,142	100.0	135,152	100.0	2,471,062	100.0	100.0%
2007									
Geography	Bank				Aggregate				Bus. Demographics
Income Level	#	%	\$000	%	#	%	\$000	%	
Low	0	0.0	0	0.0	444	0.3	12,756	0.5	0.4%
Moderate	25	20.8	5,846	21.9	21,258	15.6	459,502	16.8	16.5%
Middle	76	63.3	17,245	64.6	81,922	60.0	1,599,967	58.3	59.5%
Upper	19	15.8	3,590	13.5	32,932	24.1	670,886	24.5	23.6%
Total	120	100.0	26,681	100.0	136,562	100.0	2,743,268	100.0	100.0%
2008									
Geography	Bank				Aggregate				Bus. Demographics
Income Level	#	%	\$000	%	#	%	\$000	%	
Low	0	0.0	0	0.0	Not available				0.4%
Moderate	35	25.4	5,970	25.2					16.7%
Middle	78	56.5	13,378	56.4					59.3%
Upper	25	18.1	4,378	18.5					23.6%
Total	138	100.0	23,726	100.0					100.0%

HMDA-Reportable Loans: "Low Satisfactory"

The geographic distribution of HMDA-reportable loans reflected adequate dispersion among census tracts of different income levels. In 2006 and 2007, BoS's penetration rate was below the aggregate's rate. However, in 2008, for which aggregate data were not available, BoS's penetration rate soared to 45.5% in LMI geographies. BoS's three-year average penetration rate of 28.3% was higher than the aggregate's two-year average of 25.3%. However, BoS's penetration rate was not consistent. While in 2008, BoS' penetration rate was almost double what the aggregate's rate had been in 2007, for two years BoS's penetration rate was less than 65% of the aggregate's rate.

In 2006, BoS originated 16.7%, by number, of its HMDA-reportable loans in LMI geographies as compared to 27.4% for the market aggregate. In 2007, BoS's LMI

penetration rate declined to 15.4% and remained well below the corresponding rate of 23.7% for the market aggregate. Although lower than the market aggregate's, BoS's LMI penetration rates were in line with the demographics of the assessment area where 16.7% of owner-occupied units are located in LMI geographies.

The following table shows the geographic distribution of HMDA-reportable loans compared to the market aggregate for calendar years 2006, 2007 and 2008:

Distribution of HMDA-reportable Loans by Geographic Income Level*									
2006									
Geography	Bank				Aggregate				OO HUs
Income Level	#	%	\$000	%	#	%	\$000	%	%
Low	0	0.0	0	0.0	449	0.6	87,699	0.4	0%
Moderate	6	16.7	1,735	4.3	19,854	26.8	4,537,765	21.5	16.73
Middle	25	69.4	35,876	89.0	44,270	59.8	12,565,078	59.6	61.14
Upper	5	13.9	2,715	6.7	9,419	12.7	3,899,010	18.5	21.92
NA								0.0	0
Total	36	100.0	40,326	100.0	73,992	100.0	21,089,552	100.0	99.79
2007									
Geography	Bank				Aggregate				OO HUs
Income Level	#	%	\$000	%	#	%	\$000	%	%
Low	0	0.0	0	0.0	237	0.5	59,016	0.4	0%
Moderate	4	15.4	1,333	10.3	11,969	23.2	3,116,758	19.4	16.73
Middle	14	53.8	5,899	45.6	31,646	61.3	9,643,963	59.9	61.14
Upper	8	30.8	5,694	44.1	7,787	15.1	3,276,472	20.4	21.92
NA					1	0.0	350	0.0	0
Total	26	100	12,926	100	51,640	100.0	16,096,559	100.0	99.79
2008									
Geography	Bank				Aggregate				OO HUs
Income Level	#	%	\$000	%	#	%	\$000	%	%
Low	16	36.4	4,298	8.8	Not available				0%
Moderate	4	9.1	6,012	12.3					16.73
Middle	17	38.6	35,997	73.4					61.14
Upper	7	15.9	2,720	5.5					21.92
NA									0
Total	44	100.0	49,027	100.0					99.79

Community Development Loans: "Low Satisfactory"

BoS had an adequate level of community development ("CD") loans and commitments. Since the previous evaluation, BoS made \$10.1MM of new CD loans and commitments. Three loans were used to fund commercial real estate projects that promote economic development, one loan provided acquisition and construction financing to an affordable rental housing property, and one loan was extended to a business development corporation.

Described below are BoS's community development loans that were originated during the evaluation period.

- In 2007, BoS extended a \$2.5 million loan to a limited liability company to finance the purchase of a commercial property located in a moderate-income geography in Bayport, New York. BoS also originated a second loan for \$5 million that the company used to convert the former automobile dealership facility located on the property into a 28-lane bowling center. The construction of the bowling center promotes economic development as it will attract new businesses to the area and provide jobs to people in the community.
- In 2007, BoS extended a \$1.2 million loan commitment to a real estate holding company to finance the acquisition and improvement of an existing three-story apartment building containing 12 residential apartment units. The building is located in a moderate-income geography in Bay Shore, New York. The existing, as well as, the projected (after improvements) rents on the property are below market rates and the housing rental affordability threshold for the MSA.
- In 2006, BoS extended a \$1.2 million loan commitment for the acquisition of property within the Brookhaven Industrial Park. The Park is in a moderate-income census tract and within the Town of Brookhaven Empire Zone. The loan proceeds will be used to construct an industrial building.
- BoS has a long-standing revolving credit commitment to the New York Business Development Corporation in the amount of \$216 thousand.

In addition to the above, two of the community development loans originated in prior evaluation periods remained outstanding with a combined balance of \$5.6 million as of December 31, 2008. One of these loans was extended to a corporation located in a New York State Empire Zone and the other was to a nursing facility which provides affordable medical services to LMI individuals.

Innovative or Flexible Lending Practices: “Low Satisfactory”

BoS made limited use of flexible and innovative lending products.

BoS continued to offer its “Business Express Line of Credit” a flexible loan product that was developed by BoS. This facility is a 36-month line of credit between \$25,000 and \$100,000. The application for this line of credit requires less underwriting paperwork, generally limited to the application and the two most current years in business tax returns. The facility also provides for less rigorous documentation with the note and guaranty incorporated into one document. During the evaluation period, BoS originated 105 commitments totaling \$6.7 million under this facility.

II. Investment Test : “Low Satisfactory”

BoS’s investment performance is evaluated pursuant to the following criteria: (1) the dollar amount of qualified investments; (2) the innovativeness or complexity of qualified

investments; (3) the responsiveness of qualified investments to credit and community development needs; (4) the degree to which the qualified investments are not routinely provided by private investors.

BoS had an adequate level of community development investments. At this evaluation, qualified investments totaled \$2.5 million, of which, 20% represented new money. However, although BoS's qualified investments increased by 25% since the prior evaluation, during the same period of time, BoS's asset size more than doubled to \$1.9 billion from \$878 million. Additionally, BoS's qualified investments were neither innovative nor complex. The level of grants and donations BoS originated during the evaluation period was minimal.

The bank's qualified investments consist of the following:

CRA Qualified Investment Fund – BoS has an outstanding investment of \$1 million in this fund, which was allocated to a Fannie Mae mortgage pool to finance the mortgages of LMI borrowers in Suffolk County.

Senior Housing Crime Prevention Foundation Investment Corp. BoS has a \$1.5 million investment, including \$500 thousand in new money, in this corporation. Its primary mission is the prevention of crime in housing facilities for LMI seniors through support of the Senior Crimestoppers Program. The bank's investments were channeled into several senior residence facilities in the assessment area.

III. Service Test: "Low Satisfactory"

The service test evaluates a banking institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of a banking institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

BoS has reasonably accessible delivery systems, (branch network, branch hours and services), and alternative delivery systems. It provided an adequate level of community development services within its assessment area.

Retail Banking Services: "Low Satisfactory"

Accessibility of Delivery Systems

BoS's retail service delivery systems are reasonably accessible to essentially all portions of the assessment area.

BoS has deposit-taking automated teller machines ('ATM's") at each of its nineteen branches. Additionally, alternative delivery systems such as banking by mail, banking by phone and online internet banking services are available for convenient access to banking services during non-banking hours. Thirteen of BoS's branches are located in middle-

income tracts and five are in upper-income tracts. Only one branch is located in a moderate-income geography.

Changes in Branch Locations

During the evaluation period, BoS opened six branches of which three are located in middle-income and three in upper-income geographies. These changes have generally not adversely affected the accessibility of its delivery systems, particularly within LMI geographies or to LMI individuals.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

BoS's branches offer convenient banking hours which do not vary in a way that inconveniences certain portions of the assessment area. Of its nineteen branches, five stay open until 6:00 PM every day during the week. The other fourteen branches, which do not stay open until 6:00 PM every weekday, do offer some extended weekday hours, generally until 6:00 or 7:00 PM. Twelve of these fourteen branches stay open this late one day, one branch two days, and one branch three days. All branches have Saturday business hours; eighteen stay open until 4:00 PM. Twelve branches have drive-up facilities.

BoS also offers a free checking account service that is more advantageous to consumers than the standard basic banking account.

Community Development Services: "Low Satisfactory"

The volume of community development services BoS provides was adequate. During the evaluation period, several bank and insurance affiliate officers volunteered their time and provided their financial expertise to community development organizations operating in the assessment area. A brief description of their involvement with these organizations is as follows:

- BoS's executive vice president is a member of the board and the Loan Committee of the Community Building Fund, LLC ("CBF"). CBF is a limited liability investment company that was formed as a funding vehicle by the Community Development Corporation of Long Island, a non-profit organization that promotes housing, economic development, and job creation for LMI families in Long Island, New York.
- A loan officer of the bank is a member of the Small Business Development Committee of the Community Development Corporation of Long Island. The committee works to find ways to promote the growth and development of small businesses in the assessment area.
- A branch manager of the bank serves as Treasurer of the local chapter of Kiwanis International, a global organization of volunteers who are dedicated to changing and improving the world through their involvement in helping feed the hungry and providing shelter for the homeless in their communities.

- An officer of BoS's insurance subsidiary provides financial consulting and risk management services to the board of directors of several affordable housing community organizations, namely the Long Island Housing Partnership, the Southampton Business Alliance Housing Initiative Corporation, Housing Help, Inc. and the Community Preservation Corporation.

Additionally, in early December 2008, BoS initiated an outreach program with a Catholic church located in an area with a predominantly Hispanic population. In addition to providing financial assistance during the holiday season, the program provides foreclosure prevention and counseling assistance. The church, which serves as the intermediary in this outreach program, identifies potential candidates for such assistance and refers them to BoS.

The following factors were also considered in assessing BoS's record of performance.

The extent of participation by the banking institution's board of directors in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors is responsible for formulating policies and reviewing performance with respect to CRA. At least annually, the board reviews and formally approves BoS's CRA Policy. BoS has a CRA coordinator, appointed by the board, who is responsible for administering its CRA policy and providing senior management and the board with reports regarding CRA-related matters. BoS also has a Compliance and CRA Committee that meets quarterly. The minutes of these meetings are presented to and reviewed by the Audit Committee of the board of directors, which meets quarterly.

Any practices intended to discourage applications for types of credit set forth in the banking institution's CRA Public File.

There were no practices noted that were intended to discourage applications for the types of credit offered by the institution.

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance and fair lending examinations of the bank conducted in March 2009 indicated satisfactory adherence to anti-discrimination and other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

Process Factors

Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

BoS's lending officers are members of and serve on the boards of various community associations which include Rotary Clubs, the Community Development Corporation, the Long Island Development Corporation, the New York Business Development Corporation, the Community Building Fund, the Long Island Housing Partnership, and the Suffolk County Department of Economic Development and Workforce Housing. Relationships maintained with these organizations allow the bank to become aware of and assess community needs. Some of these organizations refer small business owners to BoS for loans.

The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution.

BoS does not advertise its loan products and does not have special credit-related marketing programs to make members of the community aware of its credit services.

Other factors that in the judgement of the Superintendent and Banking Board bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

None noted.

GLOSSARY

Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Community Development

The term “community development” is defined to mean:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

A “community development loan” is defined as a loan that has as its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;
- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women’s centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.

A “community development service” is defined as a service that has as its *primary purpose* community development, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
 - ❖ Serving on a loan review committee;
 - ❖ Developing loan application and underwriting standards;
 - ❖ Developing loan processing systems;

- ❖ Developing secondary market vehicles or programs;
- ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
- ❖ Furnishing financial services training for staff and management;
- ❖ Contributing accounting/bookkeeping services; and
- ❖ Assisting in fund raising, including soliciting or arranging investments.

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

Income Level

The income level of the person, family or household is based on the income of person, family or household. A geography’s income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

Income level of individual or geography	% of the area median income
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

Loans to Small Businesses

Small business loans to businesses with gross annual revenues (“GAR”) of \$1 million or less (“< = \$ 1MM”).

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 2000 US Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area (“MSA”) or Primary Metropolitan Statistical Area (“PMSA”), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In the case where the residential property is located in a MSA or PMSA, this would

relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development (“HUD”).

LMI Individuals/Persons

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

LMI Penetration Rate

A number that depicts the percentage of a bank’s total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

Small Business Loans

Loans to businesses with original amounts of \leq \$1MM.