

FLUSHING FINANCIAL CORP  
Form 10-Q  
November 09, 2015

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2015**

Commission file number **001-33013**

**FLUSHING FINANCIAL CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**11-3209278**

*(I.R.S. Employer Identification No.)*

**220 RXR Plaza, Uniondale, New York 11556**

*(Address of principal executive offices)*

**(718) 961-5400**

*(Registrant's telephone number, including area code)*

**1979 Marcus Avenue, Suite E140, Lake Success, New York 11042**

*(Former address of Principal executive offices)*

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, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The number of shares of the registrant's Common Stock outstanding as of October 31, 2015 was 28,830,210.

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. Financial Statements - (Unaudited)</u></b>	
<u>Consolidated Statements of Financial Condition</u>	1
<u>Consolidated Statements of Income</u>	2
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>51</b>
<b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>70</b>
<b><u>ITEM 4. Controls and Procedures</u></b>	<b>70</b>
<b><u>PART II — OTHER INFORMATION</u></b>	
<b><u>ITEM 1. Legal Proceedings</u></b>	<b>71</b>
<b><u>ITEM 1A. Risk Factors</u></b>	<b>71</b>
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>71</b>
<b><u>ITEM 3. Defaults Upon Senior Securities</u></b>	<b>71</b>
<b><u>ITEM 4. Mine Safety Disclosures</u></b>	<b>71</b>
<b><u>ITEM 5. Other Information</u></b>	<b>71</b>
<b><u>ITEM 6. Exhibits</u></b>	<b>72</b>
<b><u>SIGNATURES</u></b>	<b>73</b>



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Financial Condition**

(Unaudited)

**Item 1. Financial Statements**

(Dollars in thousands, except per share data)	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$34,474	\$ 34,265
Securities held-to-maturity:		
Other securities (none pledged) (fair value of \$6,220 at September 30, 2015)	6,220	-
Securities available for sale:		
Mortgage-backed securities (including assets pledged of \$381,912 and \$464,626 at September 30, 2015 and December 31, 2014, respectively; \$3,826 and \$4,678 at fair value pursuant to the fair value option at September 30, 2015 and December 31, 2014, respectively.)	690,044	704,933
Other securities (including assets pledged of \$18,635 and \$57,562 at September 30, 2015 and December 31, 2014, respectively; \$28,242 and \$27,915 at fair value pursuant to the fair value option at September 30, 2015 and December 31, 2014, respectively)	318,501	268,377
Loans:		
Multi-family residential	2,043,740	1,923,460
Commercial real estate	857,806	621,569
One-to-four family mixed-use property	568,401	573,779
One-to-four family residential	191,430	187,572
Co-operative apartments	9,122	9,835
Construction	5,671	5,286
Small Business Administration	10,540	7,134
Taxi medallion	21,025	22,519
Commercial business and other	479,085	447,500
Net unamortized premiums and unearned loan fees	14,129	11,719
Allowance for loan losses	(22,973 )	(25,096 )
Net loans	4,177,976	3,785,277
Interest and dividends receivable	18,365	17,251
Bank premises and equipment, net	25,517	21,868
Federal Home Loan Bank of New York stock	53,391	46,924
Bank owned life insurance	114,813	112,656
Goodwill	16,127	16,127
Other assets	46,647	69,335

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Total assets	\$5,502,075	\$ 5,077,013
<b>LIABILITIES</b>		
Due to depositors:		
Non-interest bearing	\$257,196	\$ 255,834
Interest-bearing:		
Certificate of deposit accounts	1,386,945	1,305,823
Savings accounts	261,400	261,942
Money market accounts	438,457	290,263
NOW accounts	1,338,715	1,359,057
Total interest-bearing deposits	3,425,517	3,217,085
Mortgagors' escrow deposits	44,700	35,679
Borrowed funds (\$28,491 and \$28,771 at fair value pursuant to the fair value option at September 30, 2015 and December 31, 2014, respectively)	1,120,577	940,492
Securities sold under agreements to repurchase	116,000	116,000
Other liabilities	66,895	55,676
Total liabilities	5,030,885	4,620,766
Commitments and contingencies (Notes 4 & 5)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock (\$0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at September 30, 2015 and December 31, 2014; 28,830,210 shares and 29,403,823 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	315	315
Additional paid-in capital	209,936	206,437
Treasury stock, at average cost (2,700,385 shares and 2,126,772 shares at September 30, 2015 and December 31, 2014, respectively)	(48,873 )	(37,221 )
Retained earnings	309,516	289,623
Accumulated other comprehensive income (loss), net of taxes	296	(2,907 )
Total stockholders' equity	471,190	456,247
Total liabilities and stockholders' equity	\$5,502,075	\$ 5,077,013

The accompanying notes are an integral part of these consolidated financial statements

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Income**

(Unaudited)

	For the three months		For the nine months	
	ended September 30,		ended September 30,	
(Dollars in thousands, except per share data)	2015	2014	2015	2014
Interest and dividend income				
Interest and fees on loans	\$45,243	\$42,668	\$132,861	\$127,277
Interest and dividends on securities:				
Interest	6,508	6,309	18,366	20,051
Dividends	119	190	355	574
Other interest income	43	10	96	55
Total interest and dividend income	51,913	49,177	151,678	147,957
Interest expense				
Deposits	7,701	7,336	22,596	22,724
Other interest expense	4,902	9,884	14,078	19,960
Total interest expense	12,603	17,220	36,674	42,684
Net interest income	39,310	31,957	115,004	105,273
Benefit for loan losses	(370 )	(618 )	(1,620 )	(2,829 )
Net interest income after benefit for loan losses	39,680	32,575	116,624	108,102
Non-interest income				
Banking services fee income	778	748	2,560	2,324
Net gain on sale of securities	103	5,216	167	5,216
Net gain on sale of loans	306	-	355	-
Net gain on sale of buildings	-	-	6,537	-
Net loss from fair value adjustments	(1,094 )	(474 )	(921 )	(1,520 )
Federal Home Loan Bank of New York stock dividends	480	463	1,455	1,444
Bank owned life insurance	725	762	2,157	2,293
Other income	399	408	1,264	1,062
Total non-interest income	1,697	7,123	13,574	10,819
Non-interest expense				
Salaries and employee benefits	12,648	12,164	40,471	36,686
Occupancy and equipment	2,443	2,007	7,791	5,961

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Professional services	1,907	1,601	5,036	4,338
FDIC deposit insurance	817	771	2,377	2,141
Data processing	1,178	1,021	3,425	3,131
Depreciation and amortization	993	690	2,528	2,122
Other real estate owned/foreclosure expense	110	372	717	907
Other operating expenses	3,612	2,811	11,550	8,868
Total non-interest expense	23,708	21,437	73,895	64,154
Income before income taxes	17,669	18,261	56,303	54,767
Provision for income taxes				
Federal	5,375	5,240	16,782	15,511
State and local	1,286	1,820	4,946	6,074
Total taxes	6,661	7,060	21,728	21,585
Net income	\$ 11,008	\$ 11,201	\$ 34,575	\$ 33,182
Basic earnings per common share	\$0.38	\$0.38	\$1.18	\$1.11
Diluted earnings per common share	\$0.38	\$0.38	\$1.18	\$1.11
Dividends per common share	\$0.16	\$0.15	\$0.48	\$0.45

The accompanying notes are an integral part of these consolidated financial statements.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Comprehensive Income**

(Unaudited)

(Dollars in thousands)	For the three months ended		For the nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Net income	\$11,008	\$11,201	\$34,575	\$33,182
Other comprehensive income (loss), net of tax:				
Amortization of actuarial losses	173	98	518	259
Amortization of prior service credits	(6 )	(6 )	(19 )	(16 )
Reclassification adjustment for net gains included in income	(58 )	(2,978 )	(94 )	(2,978 )
Net unrealized (losses) gains on securities	3,943	(2,206 )	2,798	9,667
Total other comprehensive income (loss), net of tax	\$4,052	\$(5,092 )	\$3,203	\$6,932
Comprehensive income	\$15,060	\$6,109	\$37,778	\$40,114

The accompanying notes are an integral part of these consolidated financial statements.

- 3 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Cash Flows**

(Unaudited)

	For the nine months ended	
	September 30, 2015	2014
(Dollars in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$34,575	\$33,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Benefit for loan losses	(1,620 )	(2,829 )
Depreciation and amortization of bank premises and equipment	2,528	2,122
Amortization of premium, net of accretion of discount	6,804	5,333
Net loss from fair value adjustments	921	1,520
Net gain from sale of loans	(355 )	-
Net gain from sale of securities	(167 )	(5,216 )
Net gain from sale of buildings	(6,537 )	-
Income from bank owned life insurance	(2,157 )	(2,293 )
Stock-based compensation expense	4,222	3,592
Deferred compensation	(2,768 )	(2,245 )
Excess tax benefit from stock-based payment arrangements	(467 )	(757 )
Deferred income tax (benefit) provision	(5,024 )	2,556
Increase in other liabilities	2,432	5,563
Decrease in other assets	2,065	1,639
Net cash provided by operating activities	34,452	42,167
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of bank premises and equipment	(9,933 )	(1,416 )
Net (purchases) redemptions of Federal Home Loan Bank of New York stock	(6,467 )	249
Purchases of securities held-to-maturity	(3,100 )	-
Proceeds from maturities of securities held-to-maturity	1,390	-
Purchases of securities available for sale	(294,453)	(132,185)
Proceeds from sales and calls of securities available for sale	163,158	102,328
Proceeds from maturities and prepayments of securities available for sale	92,733	77,641
Proceeds from sale of buildings	20,209	-
Net originations of loans	(163,037)	(199,615)
Purchases of loans	(216,333)	(23,777 )
Proceeds from sale of real estate owned	2,185	2,292
Proceeds from sale of delinquent loans	10,363	7,332

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Net cash used in investing activities	(403,285)	(167,151)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in non-interest bearing deposits	1,362	15,876
Net increase in interest-bearing deposits	207,653	105,502
Net increase in mortgagors' escrow deposits	9,021	8,698
Net proceeds from short-term borrowed funds	45,000	25,000
Proceeds from long-term borrowings	225,000	150,000
Repayment of long-term borrowings	(90,000 )	(157,081)
Purchases of treasury stock	(15,604 )	(13,805 )
Excess tax benefit from stock-based payment arrangements	467	757
Proceeds from issuance of common stock upon exercise of stock options	142	512
Cash dividends paid	(13,999 )	(13,461 )
Net cash provided by financing activities	369,042	121,998
Net increase (decrease) in cash and cash equivalents	209	(2,986 )
Cash and cash equivalents, beginning of period	34,265	33,485
Cash and cash equivalents, end of period	\$34,474	\$30,499
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Interest paid	\$35,838	\$42,374
Income taxes paid	26,518	18,184
Taxes paid if excess tax benefits were not tax deductible	26,985	18,941
Non-cash activities:		
Securities transferred from available for sale to held-to-maturity	4,510	-
Loans transferred to other real estate owned	1,588	5,749
Loans provided for the sale of other real estate owned	280	712
Loans held for investment transferred to loans held for sale	300	1,150

The accompanying notes are an integral part of these consolidated financial statements.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

(Unaudited)

	For the nine months ended	
(Dollars in thousands, except per share data)	September 30, 2015	2014
<b>Common Stock</b>		
Balance, beginning of period	\$315	\$315
No activity	-	-
Balance, end of period	\$315	\$315
<b>Additional Paid-In Capital</b>		
Balance, beginning of period	\$206,437	\$201,902
Award of common shares released from Employee Benefit Trust (143,809 and 133,446 common shares for the nine months ended September 30, 2015 and 2014, respectively)	2,031	2,029
Shares issued upon vesting of restricted stock unit awards (59,532 and 7,300 common shares for the nine months ended September 30, 2015 and 2014, respectively)	160	30
Issuance upon exercise of stock options (21,025 and 105,925 common shares for the nine months ended September 30, 2015 and 2014, respectively)	52	310
Stock-based compensation activity, net	789	801
Stock-based income tax benefit	467	757
Balance, end of period	\$209,936	\$205,829
<b>Treasury Stock</b>		
Balance, beginning of period	\$(37,221 )	\$(22,053 )
Purchases of outstanding shares (735,599 and 661,470 common shares for the nine months ended September 30, 2015 and 2014, respectively)	(14,351 )	(12,660 )
Shares issued upon vesting of restricted stock unit awards (204,310 and 198,536 common shares for the nine months ended September 30, 2015 and 2014, respectively)	3,580	3,137
Issuance upon exercise of stock options (45,125 and 105,925 common shares for the nine months ended September 30, 2015 and 2014, respectively)	813	1,697
Purchases of shares to fund options exercised (21,812 and 63,732 common shares for the nine months ended September 30, 2015 and 2014, respectively)	(441 )	(1,290 )
Repurchase of shares to satisfy tax obligations (65,637 and 55,649 common shares for the nine months ended September 30, 2015 and 2014, respectively)	(1,253 )	(1,145 )
Balance, end of period	\$(48,873 )	\$(32,314 )
<b>Retained Earnings</b>		
Balance, beginning of period	\$289,623	\$263,743
Net income	34,575	33,182

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Cash dividends declared and paid on common shares (\$0.48 and \$0.45 per common share for the nine months ended September 30, 2015 and 2014, respectively)	(13,999 )	(13,461 )
Issuance upon exercise of stock options (24,100 common shares and 8,000 common shares for the nine months ended September 30, 2015 and 2014, respectively)	(179 )	(50 )
Shares issued upon vesting of restricted stock unit awards (144,778 and 191,236 common shares for the nine months ended September 30, 2015 and 2014, respectively)	(504 )	(405 )
Balance, end of period	\$309,516	\$283,009
Accumulated Other Comprehensive Income (loss)		
Balance, beginning of period	\$(2,907 )	\$(11,375 )
Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately (\$2,230) and (\$7,484) for the nine months ended September 30, 2015 and 2014, respectively	2,798	9,667
Reclassification adjustment for net gains included in net income, net of taxes of approximately \$73 and \$2,238 for the nine months ended September 30, 2015 and 2014, respectively	(94 )	(2,978 )
Amortization of actuarial losses, net of taxes of approximately (\$402) and (\$266) for the nine months ended September 30, 2015 and 2014, respectively	518	259
Amortization of prior service credits, net of taxes of approximately \$15 and \$18 for the nine months ended September 30, 2015 and 2014, respectively)	(19 )	(16 )
Balance, end of period	\$296	\$(4,443 )
Total Stockholders' Equity	\$471,190	\$452,396

The accompanying notes are an integral part of these consolidated financial statements.

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

#### **1. Basis of Presentation**

The primary business of Flushing Financial Corporation (the “Holding Company”), a Delaware corporation, is the operation of its wholly-owned subsidiary, Flushing Bank (the “Bank”).

The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q (“Quarterly Report”) include the collective results of the Holding Company and its direct and indirect wholly-owned subsidiaries, including the Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc., which are collectively herein referred to as “we,” “us,” “our” and the “Company.”

The Holding Company also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the “Trusts”), which are special purpose business trusts. The Trusts are not included in the Company’s consolidated financial statements as the Company would not absorb the losses of the Trusts if any losses were to occur.

The accompanying unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for such presented periods of the Company. Such adjustments are of a normal recurring nature, unless otherwise disclosed in this Quarterly Report. All inter-company balances and transactions have been eliminated in consolidation. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and

Exchange Commission (“SEC”). The unaudited consolidated interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

## **2. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowance for loan losses (“ALLL”), the evaluation of goodwill for impairment, the evaluation of the need for a valuation allowance of the Company’s deferred tax assets, the evaluation of other-than-temporary impairment (“OTTI”) on securities and the valuation of certain financial instruments. The current economic environment has increased the degree of uncertainty inherent in these material estimates. Actual results could differ from these estimates.

## **3. Earnings Per Share**

Basic earnings per common share is computed by dividing net income available to common shareholders by the total weighted average number of common shares outstanding, which includes unvested participating securities. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and as such are included in the calculation of earnings per share. The Company’s unvested restricted stock and restricted stock unit awards are considered participating securities. Therefore, weighted average common shares outstanding used for computing basic earnings per common share includes common shares outstanding plus unvested restricted stock and restricted stock unit awards. The computation of diluted earnings per share includes the additional dilutive effect of stock options outstanding and other common stock equivalents during the period. Common stock equivalents that are anti-dilutive are not included in the computation of diluted earnings per common share. The numerator for calculating basic and diluted earnings per common share is net income available to common shareholders. The shares held in the Company’s Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per common share.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

Earnings per common share have been computed based on the following:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Net income, as reported	\$ 11,008	\$ 11,201	\$ 34,575	\$ 33,182
Divided by:				
Weighted average common shares outstanding	28,927	29,772	29,188	29,937
Weighted average common stock equivalents	19	24	21	31
Total weighted average common shares outstanding and common stock equivalents	\$ 28,946	\$ 29,796	\$ 29,209	\$ 29,968
Basic earnings per common share	\$ 0.38	\$ 0.38	\$ 1.18	\$ 1.11
Diluted earnings per common share <sup>(1)</sup>	\$ 0.38	\$ 0.38	\$ 1.18	\$ 1.11
Dividend payout ratio	42.1 %	39.5 %	40.7 %	40.5 %

<sup>(1)</sup> For the three and nine months ended September 30, 2015 and 2014, there were no stock options that were anti-dilutive.

**4. Debt and Equity Securities**

The Company's investments in equity securities that have readily determinable fair values and all investments in debt securities are classified in one of the following three categories and accounted for accordingly: (1) trading securities, (2) securities available for sale and (3) securities held-to-maturity.

The Company did not hold any trading securities at September 30, 2015 and December 31, 2014. The Company did not hold any securities held-to-maturity at December 31, 2014. Securities available for sale are recorded at fair value.

The following table summarizes the Company's portfolio of securities held-to-maturity at September 30, 2015:

	Amortized		Gross	Gross
	Fair Value		Unrealized	Unrealized
	Cost		Gains	Losses
	(In thousands)			
Securities held-to-maturity:				
Municipals	\$6,220	\$ 6,220	\$ -	\$ -
Total	\$6,220	\$ 6,220	\$ -	\$ -

During the three months ended June 30, 2015, the Company transferred municipal bonds with an amortized cost and fair value of \$4.5 million from available for sale to held-to-maturity. The transferred securities had a weighted average term to maturity of approximately seven months at the time of transfer.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table summarizes the Company’s portfolio of securities available for sale at September 30, 2015:

	Amortized	Fair Value	Gross Unrealized	Gross Unrealized
	Cost		Gains	Losses
	(In thousands)			
Securities available for sale:				
Corporate	\$ 115,959	\$ 114,063	\$ 424	\$ 2,320
Municipals	128,363	132,486	4,163	40
Mutual funds	21,358	21,358	-	-
Other	50,683	50,594	-	89
Total other securities	316,363	318,501	4,587	2,449
REMIC and CMO	487,677	493,688	6,880	869
GNMA	12,179	12,446	355	88
FNMA	168,966	171,191	2,744	519
FHLMC	12,518	12,719	201	-
Total mortgage-backed securities	681,340	690,044	10,180	1,476
Total securities available for sale	\$ 997,703	\$ 1,008,545	\$ 14,767	\$ 3,925

Mortgage-backed securities shown in the table above include two private issue collateralized mortgage obligations (“CMOs”) that are collateralized by commercial real estate mortgages with amortized cost and fair value of \$9.0 million at September 30, 2015.

The following table summarizes the Company’s portfolio of securities available for sale at December 31, 2014:

	Amortized	Fair Value	Gross	Gross
	Cost		Unrealized	Unrealized

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			Gains	Losses
	(In thousands)			
Securites available for sale:				
Corporate	\$90,719	\$91,273	\$ 1,268	\$ 714
Municipals	145,864	148,896	3,093	61
Mutual funds	21,118	21,118	-	-
Other	7,098	7,090	-	8
Total other securities	264,799	268,377	4,361	783
REMIC and CMO	504,207	505,768	6,188	4,627
GNMA	13,862	14,159	421	124
FNMA	169,956	170,367	2,128	1,717
FHLMC	14,505	14,639	142	8
Total mortgage-backed securities	702,530	704,933	8,879	6,476
Total securities available for sale	\$967,329	\$973,310	\$ 13,240	\$ 7,259

Mortgage-backed securities shown in the table above include three private issue CMOs that are collateralized by commercial real estate mortgages with an amortized cost and fair value of \$12.4 million at December 31, 2014.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table represents the activity related to the credit loss component recognized in earnings on debt securities held by the Company for which a portion of OTTI was recognized in accumulated other comprehensive income (loss) (“AOCI”) for the periods indicated:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Beginning balance	\$ -	\$ 3,738	\$ -	\$ 3,738
Recognition of actual losses	-	-	-	-
OTTI charges due to credit loss recorded in earnings	-	-	-	-
Securities sold during the period	-	-	-	-
Securities where there is an intent to sell or requirement to sell	-	-	-	-
Ending balance	\$ -	\$ 3,738	\$ -	\$ 3,738

The following table represents the gross gains and gross losses realized from the sale of securities available for sale for the periods indicated:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Gross gains from the sale of securities	\$ 2,666	\$ 5,247	\$ 2,899	\$ 5,247
Gross losses from the sale of securities	(2,563)	(31 )	(2,732 )	(31 )
Net gains from the sale of securities	\$ 103	\$ 5,216	\$ 167	\$ 5,216

Realized gains and losses on the sales of securities are determined using the specific identification method.

The following table details the amortized cost and fair value of the Company's securities classified as held-to-maturity at September 30, 2015, by contractual maturity.

	Amortized Cost	Fair Value
	(In thousands)	
Securities held-to-maturity: <sup>(1)</sup>		
Due in one year or less	\$6,140	\$6,140
Due after one year through five years	80	80
Total securities held-to-maturity	\$6,220	\$6,220

<sup>(1)</sup> Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table details the amortized cost and fair value of the Company's securities classified as available for sale at September 30, 2015, by contractual maturity.

	Amortized Fair Value	
	Cost	
	(In thousands)	
Securities available for sale: <sup>(1)</sup>		
Due in one year or less	\$27,317	\$27,371
Due after one year through five years	-	-
Due after five years through ten years	76,934	76,186
Due after ten years	212,112	214,944
Total other securities	316,363	318,501
Mortgage-backed securities	681,340	690,044
Total securities available for sale	\$997,703	\$1,008,545

(1) Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value aggregated by category and length of time the individual securities had been in a continuous unrealized loss position at September 30, 2015:

	Total		Less than 12 months		12 months or more	
	Unrealized		Unrealized		Unrealized	
	Losses		Losses		Losses	
	Fair Value		Fair Value		Fair Value	
	(In thousands)					
Corporate	\$77,680	\$ 2,320	\$77,680	\$ 2,320	\$ -	\$ -
Municipals	5,233	40	5,233	40	-	-

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Other	43,710	89	43,413	86	297	3
Total other securities	126,623	2,449	126,326	2,446	297	3
REMIC and CMO	93,464	869	44,618	266	48,846	603
GNMA	7,364	88	7,364	88	-	-
FNMA	53,570	519	26,367	158	27,203	361
Total mortgage-backed securities	154,398	1,476	78,349	512	76,049	964
Total securities available for sale	\$281,021	\$ 3,925	\$204,675	\$ 2,958	\$ 76,346	\$ 967

OTTI losses on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, the investor must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss has occurred, only the amount of impairment associated with the credit loss is recognized in earnings in the Consolidated Statements of Income. Amounts relating to factors other than credit losses are recorded in AOCI within Stockholders' Equity.

The Company reviewed each investment that had an unrealized loss at September 30, 2015. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings and the noncredit related impairment being recorded in AOCI, net of tax.



## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

##### **Corporate:**

The unrealized losses in Corporate securities at September 30, 2015 consist of losses on 11 Corporate securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

##### **Municipal Securities:**

The unrealized losses in Municipal securities at September 30, 2015, consist of losses on two Municipal securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

##### **Other Securities:**

The unrealized losses in Other securities at September 30, 2015, consist of a loss on one single issuer trust preferred security and five Collateralized Loan Obligation ("CLO") securities. The unrealized loss on the single issuer trust preferred was caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. This security is currently rated below investment grade. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell this security before recovery of the security's amortized cost

basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this investment to be other-than-temporarily impaired at September 30, 2015.

The unrealized losses in CLO securities were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

**REMIC and CMO:**

The unrealized losses in Real Estate Mortgage Investment Conduit ("REMIC") and Collateralized Mortgage Obligation ("CMO") securities at September 30, 2015 consist of one issue from the Federal Home Loan Mortgage Corporation ("FHLMC"), eight issues from the Federal National Mortgage Association ("FNMA") and four issues from Government National Mortgage Association ("GNMA"). The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA and GNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

**GNMA:**

The unrealized losses in GNMA securities at September 30, 2015 consist of a loss on one security. The unrealized loss was caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company’s investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security’s amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at September 30, 2015.

**FNMA:**

The unrealized losses in FNMA securities at September 30, 2015 consist of losses on nine securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes will cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

The following table shows the Company’s available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2014.

Total	Less than 12 months	12 months or more
Fair Value Unrealized	Fair Value Unrealized	Fair Value Unrealized

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	Losses		Losses		Losses	
	(In thousands)					
Corporate	\$39,287	\$ 714	\$ 9,573	\$ 428	\$29,714	\$ 286
Municipals	8,810	61	3,546	11	5,264	50
Other	292	8	-	-	292	8
Total other securities	48,389	783	13,119	439	35,270	344
REMIC and CMO	216,190	4,627	77,382	399	138,808	4,228
GNMA	8,358	124	-	-	8,358	124
FNMA	95,148	1,717	-	-	95,148	1,717
FHLMC	6,773	8	6,773	8	-	-
Total mortgage-backed securities	326,469	6,476	84,155	407	242,314	6,069
Total securities available for sale	\$374,858	\$ 7,259	\$ 97,274	\$ 846	\$277,584	\$ 6,413

## 5. Loans

Loans are reported at their principal outstanding balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on the accrual basis. The accrual of income on loans is generally discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status when contractual delinquency returns to less than 90 days delinquent. Subsequent cash payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. Subsequent cash payments can also be applied first as a reduction of principal until all principal is recovered and then subsequently to interest, if in management's opinion, it is evident that recovery of all principal due is likely to occur. Loan fees and certain loan origination costs are deferred. Net loan origination costs and premiums or discounts on loans purchased are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received on loans which pay in full prior to their scheduled maturity are included in interest income in the period they are collected.

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. The allowance is established through a provision for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of the Company's lenders, collection policies and experience, internal loan review function and other external factors. The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired loans. The Company's Board of Directors reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Increases and decreases in the allowance other than charge-offs and recoveries are included in the provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Appraisals are obtained and/or updated internal evaluations are prepared as soon as practical, and before the loan becomes 90 days delinquent. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent

loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

A loan is considered impaired when, based upon current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, in accordance with the original terms of the loan. Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or, as a practical expedient, the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recorded on the cash basis. The Company's management considers all non-accrual loans impaired.

The Company reviews each impaired loan on an individual basis to determine if either a charge-off or a valuation allowance needs to be allocated to the loan. The Company does not charge-off or allocate a valuation allowance to loans for which management has concluded the current value of the underlying collateral will allow for recovery of the loan balance either through the sale of the loan or by foreclosure and sale of the property.

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

The Company evaluates the underlying collateral through a third party appraisal, or when a third party appraisal is not available, the Company will use an internal evaluation. The internal evaluations are prepared using an income approach or a sales approach. The income approach is used for income producing properties and uses current revenues less operating expenses to determine the net cash flow of the property. Once the net cash flow is determined, the value of the property is calculated using an appropriate capitalization rate for the property. The sales approach uses comparable sales prices in the market. When an internal evaluation is used, we place greater reliance on the income approach to value the collateral.

In preparing internal evaluations of property values, the Company seeks to obtain current data on the subject property from various sources, including: (1) the borrower; (2) copies of existing leases; (3) local real estate brokers and appraisers; (4) public records (such as for real estate taxes and water and sewer charges); (5) comparable sales and rental data in the market; (6) an inspection of the property and (7) interviews with tenants. These internal evaluations primarily focus on the income approach and comparable sales data to value the property.

As of September 30, 2015, we utilized recent third party appraisals of the collateral to measure impairment for \$24.4 million, or 71.1%, of collateral dependent impaired loans, and used internal evaluations of the property's value for \$9.9 million, or 28.9%, of collateral dependent impaired loans.

The Company may restructure a loan to enable a borrower experiencing financial difficulties to continue making payments when it is deemed to be in the Company's best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as Troubled Debt Restructured ("TDR").

These restructurings have not included a reduction of principal balance. The Company believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. Restructured loans are classified as a TDR when the Bank grants a concession to a borrower who is experiencing financial difficulties. All loans classified as TDR are considered impaired, however TDR loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status and are not included as part of non-performing loans. Loans which were delinquent at the time they are restructured as a TDR are placed on

non-accrual status and reported as non-performing loans until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are placed on non-accrual status and reported as non-performing loans.

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At September 30, 2015, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The following table shows loans modified and classified as TDR during the period indicated:

(Dollars in thousands)	For the nine months ended		Modification description
	Number	Balance	
	September 30, 2015		
Small Business Administration	1	\$ 41	Received a below market interest rate and the loan amortization was extended
Total	1	\$ 41	

The recorded investment of the loan modified and classified as a TDR, presented in the table above, was unchanged as there was no principal forgiven in this modification.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The Bank did not modify and classify any loans as TDR during the three months ended September 30, 2015. The Bank did not modify and classify any loans as TDR during the three or nine months ended September 30, 2014.

The following table shows our recorded investment for loans classified as TDR that are performing according to their restructured terms at the periods indicated:

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Number	Recorded	Number	Recorded
	of	investment	of	investment
	contracts	contracts	contracts	contracts
Multi-family residential	9	\$ 2,647	10	\$ 3,034
Commercial real estate	3	2,349	3	2,373
One-to-four family - mixed-use property	7	2,347	7	2,381
One-to-four family - residential	1	346	1	354
Small business administration	1	37	-	-
Commercial business and other	4	2,125	4	2,249
Total performing troubled debt restructured	25	\$ 9,851	25	\$ 10,391

During the three months ended September 30, 2015 and 2014, there were no TDR loans transferred to non-performing status. During the nine months ended September 30, 2015, one multi-family residential TDR loan of \$0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans. During the nine months ended September 30, 2014, one commercial business and other TDR loan of \$2.0 million, one construction TDR loan of \$0.4 million and one one-to-four family mixed-use TDR loan of \$0.3 million were transferred to non-performing status, which resulted in these loans being included in non-performing loans.

The following table shows our recorded investment for loans classified as TDR that are not performing according to their restructured terms at the periods indicated:

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(Dollars in thousands)	September 30,	December 31,
	2015	2014
	Number Recorded	Number Recorded
	of investment contracts	of investment contracts
Multi-family residential	1 \$ 382	- \$ -
Commercial real estate	- -	1 2,252
One-to-four family - mixed use property	- -	1 187
Total troubled debt restructurings that subsequently defaulted	1 \$ 382	2 \$ 2,439

- 15 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our non-performing loans at the periods indicated:

(In thousands)	September 30, December 31,	
	2015	2014
Loans ninety days or more past due and still accruing:		
Multi-family residential	\$ 516	\$ 676
Commercial real estate	253	820
One-to-four family - mixed-use property	1,293	405
One-to-four family - residential	13	14
Commercial Business and other	222	386
Total	2,297	2,301
Non-accrual mortgage loans:		
Multi-family residential	4,686	6,878
Commercial real estate	2,407	5,689
One-to-four family - mixed-use property	5,446	6,936
One-to-four family - residential	10,441	11,244
Total	22,980	30,747
Non-accrual non-mortgage loans:		
Small business administration	234	-
Commercial business and other	3,089	1,143
Total	3,323	1,143
Total non-accrual loans	26,303	31,890
Total non-accrual loans and loans ninety days or more past due and still accruing	\$ 28,600	\$ 34,191

The following is a summary of interest foregone on non-accrual loans and loans classified as TDR for the periods indicated:

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	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$627	\$841	\$ 1,879	\$ 2,523
Less: Interest income included in the results of operations	153	153	540	572
Total foregone interest	\$474	\$688	\$ 1,339	\$ 1,951

- 16 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows an age analysis of our recorded investment in loans at September 30, 2015:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$7,009	\$ 1,581	\$5,202	\$ 13,792	\$2,029,948	\$2,043,740
Commercial real estate	3,255	90	2,660	6,005	851,801	857,806
One-to-four family - mixed-use property	10,425	1,048	6,739	18,212	550,189	568,401
One-to-four family - residential	2,337	649	10,252	13,238	178,192	191,430
Co-operative apartments	-	-	-	-	9,122	9,122
Construction loans	-	-	-	-	5,671	5,671
Small Business Administration	46	-	234	280	10,260	10,540
Taxi medallion	-	-	-	-	21,025	21,025
Commercial business and other	11	2	627	640	478,445	479,085
Total	\$23,083	\$ 3,370	\$25,714	\$ 52,167	\$4,134,653	\$4,186,820

The following table shows an age analysis of our recorded investment in loans at December 31, 2014:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$7,721	\$ 1,729	\$7,554	\$ 17,004	\$1,906,456	\$1,923,460
Commercial real estate	2,171	1,344	6,510	10,025	611,544	621,569
One-to-four family - mixed-use property	10,408	1,154	7,341	18,903	554,876	573,779
One-to-four family - residential	1,751	2,244	11,051	15,046	172,526	187,572
Co-operative apartments	-	-	-	-	9,835	9,835
Construction loans	3,000	-	-	3,000	2,286	5,286
Small Business Administration	90	-	-	90	7,044	7,134

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Taxi medallion	-	-	-	-	22,519	22,519
Commercial business and other	6	1,585	740	2,331	445,169	447,500
Total	\$25,147	\$ 8,056	\$33,196	\$ 66,399	\$3,732,255	\$3,798,654

- 17 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows the activity in the allowance for loan losses for the three months ended September 30, 2015:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-op apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	\$ 8,300	\$ 3,726	\$ 5,180	\$ 1,433	\$ -	\$ 29	\$ 291	\$ 11	\$ 4,114	\$ 23,084
Charge-offs	(58 )	-	(99 )	-	-	-	(9 )	-	(10 )	(176 )
Recoveries	4	100	26	300	-	-	5	-	-	435
Provision (Benefit)	(596 )	331	(233 )	(371 )	-	16	(42 )	231	294	(370 )
Ending balance	\$ 7,650	\$ 4,157	\$ 4,874	\$ 1,362	\$ -	\$ 45	\$ 245	\$ 242	\$ 4,398	\$ 22,973
Ending balance: individually evaluated for impairment	\$ 257	\$ 15	\$ 513	\$ 52	\$ -	\$ -	\$ -	\$ 233	\$ 618	\$ 1,688
Ending balance: collectively evaluated for impairment	\$ 7,393	\$ 4,142	\$ 4,361	\$ 1,310	\$ -	\$ 45	\$ 245	\$ 9	\$ 3,780	\$ 21,285

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows the activity in the allowance for loan losses for the three months ended September 30, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-op apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business other	Total
Allowance for credit losses:										
Beginning balance	\$ 10,750	\$ 5,327	\$ 6,993	\$ 1,790	\$ -	\$ 34	\$ 373	\$ 14	\$ 3,954	\$ 29,235
Charge-offs	(412 )	(221 )	(47 )	(18 )	-	-	-	-	(5 )	(703 )
Recoveries	3	99	196	104	-	-	15	-	13	430
Provision (Benefit)	(197 )	(219 )	(472 )	(102 )	-	7	(37 )	(3 )	405	(618 )
Ending balance	\$ 10,144	\$ 4,986	\$ 6,670	\$ 1,774	\$ -	\$ 41	\$ 351	\$ 11	\$ 4,367	\$ 28,344
Ending balance: individually evaluated for impairment	\$ 292	\$ 23	\$ 591	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ 168	\$ 1,129
Ending balance: collectively evaluated for impairment	\$ 9,852	\$ 4,963	\$ 6,079	\$ 1,719	\$ -	\$ 41	\$ 351	\$ 11	\$ 4,199	\$ 27,215



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows the activity in the allowance for loan losses for the nine months ended September 30, 2015:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-op apartments	Construction	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	\$ 8,827	\$ 4,202	\$ 5,840	\$ 1,690	\$ -	\$ 42	\$ 279	\$ 11	\$ 4,205	\$ 25,096
Charge-offs	(458 )	(32 )	(571 )	(244 )	-	-	(9 )	-	(62 )	(1,376 )
Recoveries	218	168	73	374	-	-	32	-	8	873
Provision (Benefit)	(937 )	(181 )	(468 )	(458 )	-	3	(57 )	231	247	(1,620 )
Ending balance	\$ 7,650	\$ 4,157	\$ 4,874	\$ 1,362	\$ -	\$ 45	\$ 245	\$ 242	\$ 4,398	\$ 22,973
Ending balance: individually evaluated for impairment	\$ 257	\$ 15	\$ 513	\$ 52	\$ -	\$ -	\$ -	\$ 233	\$ 618	\$ 1,688
Ending balance: collectively evaluated for impairment	\$ 7,393	\$ 4,142	\$ 4,361	\$ 1,310	\$ -	\$ 45	\$ 245	\$ 9	\$ 3,780	\$ 21,285

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows the activity in the allowance for loan losses for the nine months ended September 30, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartment loans	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	\$ 12,084	\$ 4,959	\$ 6,328	\$ 2,079	\$ 104	\$ 444	\$ 458	\$ -	\$ 5,320	\$ 31,776
Charge-offs	(1,086 )	(307 )	(305 )	(97 )	-	-	(49 )	-	(130 )	(1,974 )
Recoveries	144	481	331	269	7	-	76	-	63	1,371
Provision (Benefit)	(998 )	(147 )	316	(477 )	(111)	(403)	(134)	11	(886 )	(2,829 )
Ending balance	\$ 10,144	\$ 4,986	\$ 6,670	\$ 1,774	\$ -	\$ 41	\$ 351	\$ 11	\$ 4,367	\$ 28,344
Ending balance: individually evaluated for impairment	\$ 292	\$ 23	\$ 591	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ 168	\$ 1,129
Ending balance: collectively evaluated for impairment	\$ 9,852	\$ 4,963	\$ 6,079	\$ 1,719	\$ -	\$ 41	\$ 351	\$ 11	\$ 4,199	\$ 27,215

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows the manner in which loans were evaluated for impairment at the periods indicated:

(in thousands)	At September 30, 2015									
	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Financing Receivables:										
Ending Balance	\$2,043,740	\$857,806	\$568,401	\$191,430	\$9,122	\$5,671	\$10,540	\$21,025	\$479,085	\$4,110,710
Ending balance: individually evaluated for impairment	\$9,158	\$5,233	\$12,513	\$13,113	\$-	\$-	\$329	\$2,129	\$7,319	\$49,454
Ending balance: collectively evaluated for impairment	\$2,034,582	\$852,573	\$555,888	\$178,317	\$9,122	\$5,671	\$10,211	\$18,896	\$471,766	\$4,110,710
	At December 31, 2014									
(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Financing Receivables:										
Ending Balance	\$1,923,460	\$621,569	\$573,779	\$187,572	\$9,835	\$5,286	\$7,134	\$22,519	\$447,500	\$3,793,655
Ending balance: individually evaluated	\$13,260	\$9,473	\$15,120	\$13,170	\$-	\$-	\$-	\$-	\$5,492	\$56,525

for impairment

Ending balance:

collectively evaluated	\$1,910,200	\$612,096	\$558,659	\$174,402	\$9,835	\$5,286	\$7,134	\$22,519	\$442,008	\$3,74
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for impairment

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses at September 30, 2015, as well as average recorded investment and interest income recognized for loans that were considered impaired for the three and nine months ended September 30, 2015:

	September 30, 2015			For the three months ended		For the nine months ended	
				Average	Interest	Average	Interest
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Income Recognized	Recorded Investment	Income Recognized
(In thousands)							
With no related allowance recorded:							
Mortgage loans:							
Multi-family residential	\$6,836	\$7,685	\$-	\$8,034	\$14	\$9,470	\$46
Commercial real estate	4,697	4,754	-	4,930	35	5,748	107
One-to-four family mixed-use property	9,467	10,669	-	9,814	39	10,781	133
One-to-four family residential	12,767	14,960	-	13,040	28	13,125	101
Co-operative apartments	-	-	-	307	-	153	-
Construction	-	-	-	-	-	-	-
Non-mortgage loans:							
Small Business Administration	292	292	-	301	6	230	18
Taxi Medallion	-	-	-	-	-	-	-
Commercial Business and other	3,754	4,124	-	3,363	51	3,937	170
Total loans with no related allowance recorded	37,813	42,484	-	39,789	173	43,444	575
With an allowance recorded:							
Mortgage loans:							
Multi-family residential	2,322	2,322	257	2,326	30	2,461	89
Commercial real estate	536	536	15	538	7	998	22
One-to-four family mixed-use property	3,046	3,046	513	3,054	42	3,069	126

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One-to-four family residential	346	346	52	348	3	350	10
Co-operative apartments	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Non-mortgage loans:							
Small Business Administration	37	37	-	38	1	29	1
Taxi Medallion	2,129	2,129	233	1,065	16	532	49
Commercial Business and other	3,565	3,565	618	3,064	32	2,862	120
Total loans with an allowance recorded	11,981	11,981	1,688	10,433	131	10,301	417
Total Impaired Loans:							
Total mortgage loans	\$40,017	\$44,318	\$ 837	\$ 42,391	\$ 198	\$ 46,155	\$ 634
Total non-mortgage loans	\$9,777	\$10,147	\$ 851	\$ 7,831	\$ 106	\$ 7,590	\$ 358

- 23 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses at December 31, 2014, as well as average recorded investment and interest income recognized for loans that were considered impaired for the three and nine months ended September 30, 2014:

	December 31, 2014			For the three months ended		For the nine months ended	
				September 30, 2014		September 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In thousands)							
With no related allowance recorded:							
Mortgage loans:							
Multi-family residential	\$ 10,481	\$ 11,551	\$ -	\$ 14,052	\$ 44	\$ 15,397	\$ 150
Commercial real estate	7,100	7,221	-	10,840	65	12,739	231
One-to-four family mixed-use property	12,027	13,381	-	13,233	58	13,126	208
One-to-four family residential	12,816	15,709	-	12,832	16	13,081	75
Co-operative apartments	-	-	-	-	-	-	-
Construction	-	-	-	285	-	380	-
Non-mortgage loans:							
Small Business Administration	-	-	-	-	-	-	-
Taxi Medallion	-	-	-	-	-	-	-
Commercial Business and other	2,779	3,149	-	4,798	40	4,987	140
Total loans with no related allowance recorded	45,203	51,011	-	56,040	223	59,710	804
With an allowance recorded:							
Mortgage loans:							
Multi-family residential	2,779	2,779	286	3,077	37	2,988	112
Commercial real estate	2,373	2,373	21	3,787	42	3,532	125
One-to-four family mixed-use property	3,093	3,093	579	3,378	43	3,300	128

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One-to-four family residential	354	354	54	358	4	359	11
Co-operative apartments	-	-	-	-	-	-	-
Construction	-	-	-	-	-	249	-
Non-mortgage loans:							
Small Business Administration	-	-	-	-	-	-	-
Taxi Medallion	-	-	-	-	-	-	-
Commercial Business and other	2,713	2,713	154	2,545	37	3,294	113
Total loans with an allowance recorded	11,312	11,312	1,094	13,145	163	13,722	489
Total Impaired Loans:							
Total mortgage loans	\$51,023	\$56,461	\$940	\$61,842	\$309	\$65,151	\$1,040
Total non-mortgage loans	\$5,492	\$5,862	\$154	\$7,343	\$77	\$8,281	\$253

In accordance with our policy and the current regulatory guidelines, we designate loans as “Special Mention,” which are considered “Criticized Loans,” and “Substandard,” “Doubtful,” or “Loss,” which are considered “Classified Loans”. If a loan does not fall within one of the previous mentioned categories then the loan would be considered “Pass.” These loan designations are updated quarterly. We designate a loan as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate a loan Doubtful when it displays the inherent weakness of a Substandard loan with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate a loan as Loss if it is deemed the debtor is incapable of repayment. The Company does not hold any loans designated as Loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Loans that are non-accrual are designated as Substandard or Doubtful. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the recorded investment in loans designated as Criticized or Classified at September 30, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$ 4,727	\$ 6,511	\$ -	\$ -	\$11,238
Commercial real estate	1,931	2,884	-	-	4,815
One-to-four family - mixed-use property	4,245	10,167	-	-	14,412
One-to-four family - residential	1,431	12,766	-	-	14,197
Co-operative apartments	-	-	-	-	-
Construction loans	1,000	-	-	-	1,000
Small Business Administration	235	234	-	-	469
Taxi Medallion	-	2,129	-	-	2,129
Commercial business and other	1,215	5,695	-	-	6,910
Total loans	\$ 14,784	\$ 40,386	\$ -	\$ -	\$55,170

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2014:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$ 6,494	\$ 10,226	\$ -	\$ -	\$16,720
Commercial real estate	5,453	7,100	-	-	12,553
One-to-four family - mixed-use property	5,254	12,499	-	-	17,753
One-to-four family - residential	2,352	13,056	-	-	15,408
Co-operative apartments	623	-	-	-	623
Construction loans	-	-	-	-	-
Small Business Administration	479	-	-	-	479
Commercial business and other	2,841	3,779	-	-	6,620
Total loans	\$ 23,496	\$ 46,660	\$ -	\$ -	\$70,156

Commitments to extend credit (principally real estate mortgage loans and business loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to \$119.5 million and \$201.0 million, respectively, at September 30, 2015.

## **6. Loans held for sale**

Loans held for sale are carried at the lower of cost or fair value. The Bank did not have any loans classified as held for sale at September 30, 2015 or December 31, 2014.

The Company has implemented a strategy of selling certain delinquent and non-performing loans. Once the Company has decided to sell a loan, the sale usually closes in a short period of time, generally within the same quarter. Loans designated held for sale are reclassified from loans held for investment to loans held for sale. Terms of sale include cash due upon the closing of the sale, no contingencies or recourse to the Company and servicing is released to the buyer.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows delinquent and non-performing loans sold during the period indicated:

	For the three months ended			
	September 30, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net charge-offs	Net gain
Multi-family residential	4	\$ 1,539	\$ (3 )	\$ 1
Commercial real estate	2	741	-	13
Total	6	\$ 2,280	\$ (3 )	\$ 14

The above table does not include one performing commercial real estate loan for \$3.0 million, which sold for a net gain of \$30,000, and four performing SBA loans totaling \$3.8 million, which sold for a net gain of \$0.3 million, during the three months ended September 30, 2015.

The Bank did not sell any loans during the three months ended September 30, 2014.

The following table shows delinquent and non-performing loans sold during the period indicated:

	For the nine months ended			
	September 30, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net recoveries	Net gain (loss)

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Multi-family residential	8	\$ 3,420	\$ 134	\$ (1 )
Commercial real estate	3	2,051	-	13
One-to-four family - mixed-use property	7	1,836	-	51
Total	18	\$ 7,307	\$ 134	\$ 63

The above table does not include one performing commercial real estate loan for \$3.0 million, which sold for a net gain of \$30,000, and four performing SBA loans totaling \$3.8 million, which sold for a net gain of \$0.3 million, during the nine months ended September 30, 2015.

The following table shows delinquent and non-performing loans sold during the period indicated:

(Dollars in thousands)	For the nine months ended			
	September 30, 2014			
	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain (loss)
Multi-family residential	7	\$ 3,216	\$ (70 )	\$ -
Commercial real estate	3	2,047	295	-
One-to-four family - mixed-use property	6	2,069	38	-
Total	16	\$ 7,332	\$ 263	\$ -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

**7. Other Real Estate Owned**

The following are changes in OREO during the periods indicated:

	For the three months ended		For the nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
	(In thousands)			
Balance at beginning of period	\$4,255	\$1,346	\$6,326	\$2,985
Acquisitions	816	5,143	1,588	5,749
Write-down of carrying value	-	-	(896 )	(5 )
Sales	(216 )	(697 )	(2,163)	(2,937)
Balance at end of period	\$4,855	\$5,792	\$4,855	\$5,792

The following table shows the gross gains, gross losses and write-downs of OREO reported in the Consolidated Statements of Income during the periods indicated:

	For the three months ended	For the nine months ended September 30,	
	September 30, 2015	2014	2014
	(In thousands)		

Gross gains	\$4	\$-	\$ 306	\$ 132
Gross losses	-	(34)	(6 )	(65 )
Write-down of carrying value	-	-	(896 )	(5 )
Total gain (loss)	\$4	\$(34)	\$ (596 )	\$ 62

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. During the three and nine months ended September 30, 2015, we did not foreclose on any consumer mortgages through in-substance repossession. OREO are included in other assets on the Company's balance sheet. At September 30, 2015, we did not hold any foreclosed residential real estate. At December 31, 2014, we held foreclosed residential real estate totaling \$1.3 million. Included within net loans as of September 30, 2015 was a recorded investment of \$13.9 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

## 8. Repurchase Agreements

As part of the Company's strategy to finance investment opportunities and manage its cost of funds, the Company enters into repurchase agreements with broker-dealers and the Federal Home Loan Bank of New York ("FHLB-NY"). These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in the consolidated financial statements. The securities underlying the agreements are delivered to the broker-dealers or the FHLB-NY who arrange the transaction. The securities remain registered in the name of the Company and are returned upon the maturity of the agreement. The Company retains the right of substitution of collateral throughout the terms of the agreements. As a condition of the repurchase agreements the Company is required to provide sufficient collateral. If the fair value of the collateral were to fall below the required level, the Company is obligated to pledge additional collateral. All the repurchase agreements are collateralized by mortgage-backed securities.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows securities pledged and remaining maturity of repurchase agreements held during the period indicated:

	At September 30, 2015			
	Remaining Contractual Maturity of Agreements			
	Less than 1 year	1 year to 3 years	Over 3 years	Total
	(In thousands)			
Repurchase agreements:				
Mortgage-backed securities	\$38,000	\$38,000	\$40,000	\$116,000
Total repurchase agreements	\$38,000	\$38,000	\$40,000	\$116,000

The fair value of the collateral pledged for the repurchase agreements above was \$136.4 million at September 30, 2015.

**9. Stock-Based Compensation**

For each of the three months ended September 30, 2015 and 2014, the Company's net income, as reported, includes \$0.5 million of stock-based compensation costs and \$0.2 million of income tax benefits related to the stock-based compensation plans. For the nine months ended September 30, 2015 and 2014, the Company's net income, as reported, includes \$4.2 million and \$3.6 million, respectively, of stock-based compensation costs and \$1.6 million and \$1.4 million, respectively, of income tax benefits related to the stock-based compensation plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the

annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. There were 2,800 restricted stock units granted during the three months ended September 30, 2014. There were no restricted stock awards issued during the three months ended September 30, 2015. During the nine months ended September 30, 2015 and 2014, the Company granted 318,120 and 266,895 restricted stock units, respectively. There were no stock options granted during the three and nine months ended September 30, 2015 and 2014.

The 2014 Omnibus Incentive Plan (“2014 Omnibus Plan”) became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company’s 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan (the “Prior Plans”). At September 30, 2015, there were 784,830 shares available for delivery in connection with awards under the 2014 Omnibus Plan. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available; otherwise new shares are issued. The exercise price per share of a stock option grant may not be less than the fair value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company’s stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year maximum contractual term. Other awards do not have a contractual term of expiration. The Compensation Committee is authorized to grant awards that vest upon a participant’s retirement. These amounts are included in stock-based compensation expense at the time of the participant’s retirement eligibility.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table summarizes the Company’s restricted stock unit (“RSU”) awards under the 2014 Omnibus Plan and the Prior Plans in the aggregate at or for the nine months ended September 30, 2015:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2014	373,154	\$ 16.75
Granted	318,120	19.10
Vested	(260,700)	17.37
Forfeited	(9,625 )	18.55
Non-vested at September 30, 2015	420,949	\$ 18.10
Vested but unissued at September 30, 2015	290,226	\$ 18.08

As of September 30, 2015, there was \$6.1 million of total unrecognized compensation cost related to non-vested full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 3.3 years. The total fair value of awards vested for the three months ended September 30, 2015 and 2014 were \$39,000 and \$4,000, respectively. The total fair value of awards vested for the nine months ended September 30, 2015 and 2014 was \$4.9 million and \$4.1 million, respectively. The vested but unissued RSU awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of these awards, which provide for vesting upon retirement, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting and settlement dates.

The following table summarizes certain information regarding the stock option awards under the Omnibus Plan and the Prior Plans in the aggregate at or for the nine months ended September 30, 2015:

Shares	Weighted- Weighted-Average Aggregate
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		Average	Remaining	Intrinsic
		Exercise	Contractual	Value
		Price	Term	(\$000)*
Outstanding at December 31, 2014	154,915	\$ 15.19		
Granted	-	-		
Exercised	(45,125 )	12.92		
Forfeited	-	-		
Outstanding at September 30, 2015	109,790	\$ 16.12	2.6	\$ 428

\* The intrinsic value of a stock option is the difference between the fair value of the underlying stock and the exercise price of the option.

- 29 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

Cash proceeds, fair value received, tax benefits, and intrinsic value related to stock options exercised, and the weighted average grant date fair value for options granted, during the three and nine months ended September 30, 2015 and 2014 are provided in the following table:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
(In thousands)	2015	2014	2015	2014
Proceeds from stock options exercised	\$-	\$82	\$142	\$512
Fair value of shares received upon exercised of stock options	421	-	441	1,290
Tax benefit related to stock options exercised	87	1	324	94
Intrinsic value of stock options exercised	291	18	96	335

As of September 30, 2015, there is no remaining unrecognized compensation cost related to stock options granted.

*Phantom Stock Plan:* The Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the level of Senior Vice President II and above and completed one year of service. However, all Senior Vice Presidents level III and Vice Presidents who were participants on January 31, 2015 remain eligible to participate in the phantom stock plan. Awards are made under this plan on certain compensation not eligible for awards made under the profit sharing plan, due to the terms of the profit sharing plan and the Internal Revenue Code. Employees receive awards under this plan proportionate to the amount they would have received under the profit sharing plan, but for limits imposed by the profit sharing plan and the Internal Revenue Code. The awards are made as cash awards, and then converted to common stock equivalents (phantom shares) at the then current fair value of the Company's common stock. Dividends are credited to each employee's account in the form of additional phantom shares each time the Company pays a dividend on its common stock. In the event of a change of control (as defined in this plan), an employee's interest is converted to a fixed dollar amount and deemed to be invested in the same manner as his interest in the Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for the first 5 years of employment and are 100% vested thereafter. Employees also become 100%

vested upon a change of control. Employees receive their vested interest in this plan in the form of a cash lump sum payment or installments, as elected by the employee, after termination of employment. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Phantom Stock Plan at or for the nine months ended September 30, 2015:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2014	67,113	\$20.27
Granted	12,356	19.32
Forfeited	(2 )	20.58
Distributions	(451 )	19.64
Outstanding at September 30, 2015	79,016	\$20.02
Vested at September 30, 2015	78,857	\$20.02

The Company recorded stock-based compensation benefits for the Phantom Stock Plan of \$65,000 and \$25,000 for the three months ended September 30, 2015 and 2014, respectively. The total fair value of the distributions from the Phantom Stock Plan was \$21,000 for the three months ended September 30, 2014. There were no distributions from the Phantom Stock Plan during the three months ended September 30, 2015.

For the nine months ended September 30, 2015 and 2014, the Company recorded stock-based compensation expense for the Phantom Stock Plan of \$29,000 and \$17,000, respectively. The total fair value of the distributions from the Phantom Stock Plan during the nine months ended September 30, 2015 and 2014 was \$9,000 and \$34,000, respectively.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

**10. Pension and Other Postretirement Benefit Plans**

The following table sets forth information regarding the components of net expense for the pension and other postretirement benefit plans.

	Three months ended		Nine months ended	
(In thousands)	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Employee Pension Plan:</b>				
Interest cost	\$221	\$223	\$663	\$669
Amortization of unrecognized loss	291	190	872	570
Expected return on plan assets	(350)	(336)	(1,050)	(1,008)
Net employee pension expense	\$162	\$77	\$485	\$231
<b>Outside Director Pension Plan:</b>				
Service cost	\$11	\$13	\$33	\$39
Interest cost	24	29	72	87
Accretion of unrecognized gain	(14 )	(15 )	(42 )	(45 )
Amortization of past service liability	10	10	30	30
Net outside director pension expense	\$31	\$37	\$93	\$111
<b>Other Postretirement Benefit Plans:</b>				
Service cost	\$95	\$90	\$285	\$270
Interest cost	75	63	225	189
Amortization of unrecognized loss	30	-	90	-
Accretion of past service credit	(21 )	(22 )	(64 )	(67 )
Net other postretirement expense	\$179	\$131	\$536	\$392

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2014 that it expects to contribute \$0.3 million and \$0.2 million to the Outside Director Pension Plan (the “Outside Director

Pension Plan”) and the other postretirement benefit plans (the “Other Postretirement Benefit Plans”), respectively, during the year ending December 31, 2015. The Company does not expect to make a contribution to the Employee Pension Plan (the “Employee Pension Plan”). As of September 30, 2015, the Company has contributed \$0.1 million to the Outside Director Pension Plan and \$49,000 to the Other Postretirement Benefit Plans. As of September 30, 2015, the Company has not revised its expected contributions for the year ending December 31, 2015.

## **11. Fair Value of Financial Instruments**

The Company carries certain financial assets and financial liabilities at fair value in accordance with GAAP which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At September 30, 2015, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$32.1 million and \$28.5 million, respectively. At December 31, 2014, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$32.6 million and \$28.8 million, respectively. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the nine months ended September 30, 2015. The Company elected to measure at fair value securities with a cost of \$5.0 million that were purchased during the nine months ended September 30, 2014. During the nine months ended September 30, 2014, the Company sold financial assets carried under the fair value option totaling \$1.9 million.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table presents the financial assets and financial liabilities reported at fair value under the fair value option, and the changes in fair value included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments, at or for the periods ended as indicated:

	Fair Value	Fair Value	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
	Measurements at September 30, 2015	Measurements at December 31, 2014	Three Months Ended		Nine Months Ended	
(Dollars in thousands)			September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Mortgage-backed securities	\$ 3,826	\$ 4,678	\$ -	\$ (16 )	\$ (36 )	\$ 56
Other securities	28,242	27,915	59	14	148	511
Borrowed funds	28,491	28,771	987	(144 )	282	35
Net gain (loss) from fair value adjustments <sup>(1)</sup> <sup>(2)</sup>			\$ 1,046	\$ (146 )	\$ 394	\$ 602

The net gain (loss) from fair value adjustments presented in the above table does not include net losses of \$2.1 (1) million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively, from the change in the fair value of interest rate swaps.

The net gain from fair value adjustments presented in the above table does not include net losses of \$1.3 million (2) and \$2.1 million for the nine months ended September 30, 2015 and 2014, respectively, from the change in the fair value of interest rate swaps.

Included in the fair value of the financial assets and financial liabilities selected for the fair value option is the accrued interest receivable or payable for the related instrument. The Company reports as interest income or interest expense in the Consolidated Statement of Income, the interest receivable or payable on the financial instruments selected for the fair value option at their respective contractual rates.

The borrowed funds had a contractual principal amount of \$61.9 million at both September 30, 2015 and December 31, 2014. The fair value of borrowed funds includes accrued interest payable of \$0.1 million at both September 30, 2015 and December 31, 2014.

The Company generally holds its earning assets, other than securities available for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include core deposit intangibles and other customer relationships, premises and equipment, leases, income taxes and equity.

Further, fair value disclosure does not attempt to value future income or business. These items may be material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Company.

Financial assets and financial liabilities reported at fair value are required to be measured based on either: (1) quoted prices in active markets for identical financial instruments (Level 1); (2) significant other observable inputs (Level 2); or (3) significant unobservable inputs (Level 3).

A description of the methods and significant assumptions utilized in estimating the fair value of the Company's assets and liabilities that are carried at fair value on a recurring basis are as follows:

Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at September 30, 2015 and December 31, 2014.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At September 30, 2015 and December 31, 2014, Level 2 included



mortgage related securities, corporate debt, certain municipal securities, mutual funds and interest rate swaps.

- 32 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At September 30, 2015 and December 31, 2014, Level 3 included certain municipal securities and trust preferred securities owned by and junior subordinated debentures issued by the Company.

The methods described above may produce fair values that may not be indicative of net realizable value or reflective of future fair values. While the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies, assumptions and models to determine fair value of certain financial instruments could produce different estimates of fair value at the reporting date.

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and the method that was used to determine their fair value, at September 30, 2015 and December 31, 2014:

	Quoted Prices		in Active Markets for Identical Assets  (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	2015	2014			2015	2014	2015	2014
Assets:								
Mortgage-backed securities	\$-	\$ -	\$690,044	\$704,933	\$-	\$-	\$690,044	\$704,933
Other securities	-	-	311,320	245,768	7,181	22,609	318,501	268,377
Interest rate swaps	-	-	-	84	-	-	-	84
Total assets	\$-	\$ -	\$1,001,364	\$950,785	\$7,181	\$22,609	\$1,008,545	\$973,394

Liabilities:								
Borrowings	\$-	\$ -	\$-	\$-	\$28,491	\$28,771	\$28,491	\$28,771
Interest rate swaps	-	-	5,079	2,649	-	-	5,079	2,649
Total liabilities	\$-	\$ -	\$5,079	\$2,649	\$28,491	\$28,771	\$33,570	\$31,420

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the three months ended		
	September 30, 2015		
	Municipals	Trust preferred securities	Junior subordinated debentures
	(In thousands)		
Beginning balance	\$7,899	\$ 7,226	\$ 29,476
Transfer to held-to-maturity	-	-	-
Principal repayments	(7,899)	-	-
Maturities	-	-	-
Net loss from fair value adjustment of financial assets included in earnings <sup>(1)</sup>	-	(44 )	-
Net gain from fair value adjustment of financial liabilities included in earnings <sup>(1)</sup>	-	-	(988 )
Increase in accrued interest payable	-	-	3
Change in unrealized losses included in other comprehensive income	-	(1 )	-
Ending balance	\$-	\$ 7,181	\$ 28,491
Changes in unrealized losses held at period end	\$-	\$ (1 )	\$ -

<sup>(1)</sup> These totals in the table above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the three months ended		
	September 30, 2014		
	Municipals	Trust preferred securities	Junior subordinated debentures
	(In thousands)		
Beginning balance	\$ 10,592	\$ 13,361	\$ 29,388
Purchases	2,000	-	-
Maturities	(85 )	-	-
Principal repayments	(54 )	-	-
Net gain from fair value adjustment of financial assets included in earnings <sup>(1)</sup>	-	45	-
Net loss from fair value adjustment of financial liabilities included in earnings <sup>(1)</sup>	-	-	145
Increase in accrued interest payable	-	-	2
Change in unrealized gains (losses) included in other comprehensive income	-	212	-
Ending balance	\$ 12,453	\$ 13,618	\$ 29,535

Changes in unrealized gains held at period end	\$ -	\$ 212	\$ -
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(1) These totals in the table above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the nine months ended		
	September 30, 2015		Junior
	Trust Municipals	preferred securities	subordinated debentures
	(In thousands)		
Beginning balance	\$15,519	\$ 7,090	\$ 28,771
Transfer to held-to-maturity	(4,510 )	-	-
Purchases	1,000	-	-
Principal repayments	(8,009 )	-	-
Maturities	(4,000 )	-	-
Net gain from fair value adjustment of financial assets included in earnings <sup>(1)</sup>	-	86	-
Net gain from fair value adjustment of financial liabilities included in earnings <sup>(1)</sup>	-	-	(283 )
Increase in accrued interest payable	-	-	3
Change in unrealized gains (losses) included in other comprehensive income	-	5	-
Ending balance	\$-	\$ 7,181	\$ 28,491
Changes in unrealized gains held at period end	\$-	\$ 5	\$ -

(1) These totals in the table above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the nine months ended		
	September 30, 2014		Junior
	Municipals	Trust preferred securities	subordinated debentures
	(In thousands)		
Beginning balance	\$9,223	\$ 14,935	\$ 29,570
Purchases	4,475	-	-
Maturities	(1,085 )	-	-
Principal repayments	(160 )	-	-
Sales	-	(1,871 )	-
Net gain from fair value adjustment of financial assets included in earnings <sup>(1)</sup>	-	99	-
Net gain from fair value adjustment of financial liabilities included in earnings <sup>(1)</sup>	-	-	(34 )
Decrease in accrued interest payable	-	-	(1 )
Change in unrealized gains (losses) included in other comprehensive income	-	455	-
Ending balance	\$12,453	\$ 13,618	\$ 29,535
Changes in unrealized gains held at period end	\$-	\$ 455	\$ -

<sup>(1)</sup> These totals in the table above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

During the three and nine months ended September 30, 2015 and 2014, there were no transfers between Levels 1, 2 and 3.

The following table presents the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements as of September 30, 2015:

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Trust Preferred Securities	\$7,181	Discounted cash flows	Discount rate	7.0%- 7.1%	7.1%
Liabilities:					
Junior subordinated debentures	\$28,491	Discounted cash flows	Discount rate	7.0%	7.0%

The significant unobservable input used in the fair value measurement of the Company's trust preferred securities valued under Level 3 is the securities' effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable input used in the fair value measurement of the Company's junior subordinated debentures under Level 3 is effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table presents the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements as of December 31, 2014:

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
<b>Assets:</b>					
Municipals	\$15,519	Discounted cash flows	Discount rate	0.2% - 4.0%	2.3%
Trust Preferred Securities	\$7,090	Discounted cash flows	Discount rate	7.0% - 7.25%	7.2%
<b>Liabilities:</b>					
Junior subordinated debentures	\$28,771	Discounted cash flows	Discount rate	7.0%	7.0%

The significant unobservable input used in the fair value measurement of the Company's municipal securities valued under Level 3 is the securities' effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable input used in the fair value measurement of the Company's trust preferred securities valued under Level 3 is the securities' effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable input used in the fair value measurement of the Company's junior subordinated debentures is effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.



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The following table sets forth the Company's assets and liabilities that are carried at fair value on a non-recurring basis and the method that was used to determine their fair value, at September 30, 2015 and December 31, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total carried at fair value on a non-recurring basis			
	2015	2014	2015	2014	2015	2014	
	(In thousands)						
Assets:							
Impaired loans	\$-	\$ -	\$ -	\$ -	\$15,418	\$22,174	\$15,418 \$22,174
Other real estate owned	-	-	-	-	4,855	6,326	4,855 6,326
Total assets	\$-	\$ -	\$ -	\$ -	\$20,273	\$28,500	\$20,273 \$28,500

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table presents the quantitative information about non-recurring Level 3 fair value of financial instruments and the fair value measurements as of September 30, 2015:

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$3,890	Income approach	Capitalization rate Loss severity discount	6.0% to 8.0% 0.5% to 55.4%	7.5% 15.8%
Impaired loans	\$5,534	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales Loss severity discount	-50.0% to 40.0% 0.2% to 89.4%	-4.6% 12.9%
Impaired loans	\$5,994	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales Capitalization rate Loss severity discount	-50.0% to 25.0% 5.6% to 11.0% 0.9% to 51.4%	-2.3% 7.2% 15.9%
Other real estate owned	\$3,750	Income approach	Capitalization rate Loss severity discount	9.0% 19.0%	9.0% 19.0%
Other real estate owned	\$289	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-5.0% to 25.0%	10.0%

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			Loss severity discount	1.6%	1.6%
Other real estate owned	\$816	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-10.0% to 15.0%	2.5%
			Capitalization rate	8.6%	8.6%
			Loss severity discount	1.3%	1.3%

- 37 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table presents the quantitative information about non-recurring Level 3 fair value of financial instruments and the fair value measurements as of December 31, 2014:

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$6,981	Income approach	Capitalization rate Loss severity discount	7.3% to 8.5% 0.5% to 81.7%	7.8% 21.3%
Impaired loans	\$6,935	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales Loss severity discount	-41.5% to 40.0% 1.8% to 89.4%	-2.2% 20.0%
Impaired loans	\$8,258	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales Capitalization rate Loss severity discount	-55.0% to 25.0% 5.8% to 11.0% 0.9% to 74.4%	-6.1% 8.0% 30.0%
Other real estate owned	\$4,768	Income approach	Capitalization rate Loss severity discount	9.0% to 12.0% 0.9% to 4.9%	9.1% 1.0%
Other real estate owned	\$587	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-11.9% to 15.0%	-3.5%

			Loss severity discount	0.0% to 36.9%	9.6%
Other real estate owned	\$971	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-25.0% to 0.0%	-8.9%
			Capitalization rate	7.5% to 8.0%	7.7%
			Loss severity discount	0.0% to 6.2%	3.0%

The Company carries its impaired collateral dependent loans at 85% of the appraised or internally estimated value of the underlying property.

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014.

The estimated fair value of each material class of financial instruments at September 30, 2015 and December 31, 2014 and the related methods and assumptions used to estimate fair value are as follows:

**Cash and Due from Banks, Overnight Interest-Earning Deposits and Federal Funds Sold:**

The fair values of financial instruments that are short-term or reprice frequently and have little or no risk are considered to have a fair value that approximates carrying value.

**FHLB-NY stock:**

The fair value is based upon the par value of the stock which equals its carrying value.

**Securities:**

The estimated fair values of securities are contained in Note 4 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument

and the instrument being valued. When there is limited activity or less transparency around inputs to the valuation, securities are valued using.

- 38 -

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

#### **Loans held for sale:**

The fair value of non-performing loans held for sale is estimated through bids received on the loans. There were no loans held for sale at September 30, 2015 and December 31, 2014.

#### **Loans:**

The fair value of loans is estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities.

For non-accruing loans, fair value is generally estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets or for collateral dependent loans 85% of the appraised or internally estimated value of the property.

#### **Due to Depositors:**

The fair values of demand, passbook savings, NOW, money market deposits and escrow deposits are, by definition, equal to the amount payable on demand at the reporting dates (i.e. their carrying value). The fair value of fixed-maturity certificates of deposits are estimated by discounting the expected future cash flows using the rates currently offered for deposits of similar remaining maturities.

#### **Borrowings:**

The fair value of borrowings are estimated by discounting the contractual cash flows using interest rates in effect for borrowings with similar maturities and collateral requirements or using a market-standard model.

**Interest Rate Swaps:**

The estimated fair value of interest rate swaps is based upon broker quotes.

**Other Real Estate Owned:**

OREO are carried at fair value less selling costs. The fair value is based on appraised value through a current appraisal, or sometimes through an internal review, additionally adjusted by the estimated costs to sell the property.

**Other Financial Instruments:**

The fair values of commitments to sell, lend or borrow are estimated using the fees currently charged or paid to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties or on the estimated cost to terminate them or otherwise settle with the counterparties at the reporting date. For fixed-rate loan commitments to sell, lend or borrow, fair values also consider the difference between current levels of interest rates and committed rates (where applicable).

At September 30, 2015 and December 31, 2014, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.



**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at September 30, 2015:

	September 30, 2015		Level 1	Level 2	Level 3
	Carrying Amount (in thousands)	Fair Value			
<b>Assets:</b>					
Cash and due from banks	\$34,474	\$34,474	\$34,474	\$-	\$-
Securities held-to-maturity	6,220	6,220	-	-	6,220
Mortgage-backed securities available for sale	690,044	690,044	-	690,044	-
Other securities available for sale	318,501	318,501	-	311,320	7,181
Loans	4,200,949	4,243,040	-	-	4,243,040
FHLB-NY stock	53,391	53,391	-	53,391	-
<b>Total assets</b>	<b>\$5,303,579</b>	<b>\$5,345,670</b>	<b>\$34,474</b>	<b>\$1,054,755</b>	<b>\$4,256,441</b>
<b>Liabilities:</b>					
Deposits	\$3,727,413	\$3,751,619	\$2,340,468	\$1,411,151	\$-
Borrowings	1,236,577	1,254,194	-	1,225,703	28,491
Interest rate swaps	5,079	5,079	-	5,079	-
<b>Total liabilities</b>	<b>\$4,969,069</b>	<b>\$5,010,892</b>	<b>\$2,340,468</b>	<b>\$2,641,933</b>	<b>\$28,491</b>

- 40 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at December 31, 2014:

	December 31, 2014		Level 1	Level 2	Level 3
	Carrying	Fair			
	Amount	Value			
	(in thousands)				
<b>Assets:</b>					
Cash and due from banks	\$34,265	\$34,265	\$34,265	\$-	\$-
Mortgage-backed Securities	704,933	704,933	-	704,933	-
Other securities	268,377	268,377	-	245,768	22,609
Loans	3,810,373	3,871,087	-	-	3,871,087
FHLB-NY stock	46,924	46,924	-	46,924	-
Interest rate swaps	84	84	-	84	-
<b>Total assets</b>	<b>\$4,864,956</b>	<b>\$4,925,670</b>	<b>\$34,265</b>	<b>\$997,709</b>	<b>\$3,893,696</b>
<b>Liabilities:</b>					
Deposits	\$3,508,598	\$3,524,123	\$2,202,775	\$1,321,348	\$-
Borrowings	1,056,492	1,070,428	-	1,041,657	28,771
Interest rate swaps	2,649	2,649	-	2,649	-
<b>Total liabilities</b>	<b>\$4,567,739</b>	<b>\$4,597,200</b>	<b>\$2,202,775</b>	<b>\$2,365,654</b>	<b>\$28,771</b>

**12. Derivative Financial Instruments**

At September 30, 2015 and December 31, 2014, the Company's derivative financial instruments consist of interest rate swaps. The Company's interest rate swaps are used to mitigate the Company's exposure to rising interest rates on a portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million. Additionally, the Company at times may use interest rate swaps to mitigate the Company's exposure to rising

interest rates on its fixed rate loans.

At September 30, 2015 and December 31, 2014, derivatives with a combined notional amount of \$36.3 million were not designated as hedges. At September 30, 2015 and December 31, 2014, derivatives with a combined notional amount of \$52.8 million and \$14.5 million, respectively, were designated as fair value hedges. Changes in the fair value of the derivatives not designated as hedges are reflected in “Net gain/loss from fair value adjustments” in the Consolidated Statements of Income. The portion of the changes in the fair value of the derivative designated as a fair value hedge which is considered ineffective are reflected in “Net gain/loss from fair value adjustments” in the Consolidated Statements of Income.

- 41 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth information regarding the Company's derivative financial instruments at September 30, 2015:

	Notional Amount (In thousands)	Net Carrying Value <sup>(1)</sup>
Interest rate swaps (non-hedge)	\$36,321	\$(3,119 )
Interest rate swaps (hedge)	52,830	(1,960 )
Total derivatives	\$89,151	\$(5,079 )

The following table sets forth information regarding the Company's derivative financial instruments at December 31, 2014:

	Notional Amount (In thousands)	Net Carrying Value <sup>(1)</sup>
Interest rate swaps (non-hedge)	\$36,321	\$(2,239 )
Interest rate swaps (hedge)	4,131	84
Interest rate swaps (hedge)	10,340	(410 )
Total derivatives	\$50,792	\$(2,565 )

<sup>(1)</sup> Derivatives in a net positive position are recorded as "Other assets" and derivatives in a net negative position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

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The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income for the periods indicated:

(In thousands)	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Financial Derivatives:</b>				
Interest rate swaps (non-hedge)	\$(1,753)	\$(300)	\$(882 )	\$(2,033)
Interest rate swaps (hedge)	(387 )	(28 )	(433 )	(89 )
Net loss <sup>(1)</sup>	\$(2,140)	\$(328)	\$(1,315)	\$(2,122)

(1) Net gains and losses are recorded as part of “Net gain/loss from fair value adjustments” in the Consolidated Statements of Income.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

**13. Income Taxes**

Flushing Financial Corporation files consolidated Federal and combined New York State and New York City income tax returns with its subsidiaries, with the exception of the Company's trusts, which file separate Federal income tax returns as trusts, and Flushing Preferred Funding Corporation, which files a separate Federal income tax return as a real estate investment trust. Additionally, the Bank files New Jersey State tax returns.

Income tax provisions are summarized as follows:

	For the three months		For the nine months	
	ended September 30, 2015	2014	ended September 30, 2015	2014
(In thousands)				
Federal:				
Current	\$6,195	\$5,381	\$20,262	\$13,793
Deferred	(820 )	(141 )	(3,480 )	1,718
Total federal tax provision	5,375	5,240	16,782	15,511
State and Local:				
Current	1,635	1,869	6,490	5,237
Deferred	(349 )	(49 )	(1,544 )	837
Total state and local tax provision	1,286	1,820	4,946	6,074
Total income tax provision	\$6,661	\$7,060	\$21,728	\$21,585

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The effective tax rate was 37.7% and 38.7% for the three months ended September 30, 2015 and 2014, respectively, and 38.6% and 39.4% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in the effective tax rate was primarily due to the prior year being affected by changes in New York State tax code passed on March 31, 2014, which resulted in a reduction in the Company's deferred tax assets and a corresponding increase in tax expense during the three and nine months ended September 30, 2014. Additionally, the decrease in the effective tax rate reflects the greater impact that preferential tax items had on the Company's tax liability during the three months ended September 30, 2015 compared to the three months ended September 30, 2014.

On April 13, 2015, the Governor of New York signed the New York State 2015 budget, which included changes to the New York City tax code. The approved budget changes the manner in which the Bank's tax liability is calculated for New York City. Based on our review of the changes to the New York City tax code, we do not anticipate a significant change to the Company's tax expense.

The effective rates differ from the statutory federal income tax rate as follows:

(dollars in thousands)	For the three months				For the nine months			
	ended September 30, 2015		2014		ended September 30, 2015		2014	
Taxes at federal statutory rate	\$6,184	35.0%	\$6,392	35.0%	\$19,706	35.0%	\$19,169	35.0%
Increase (reduction) in taxes resulting from:								
State and local income tax, net of Federal income tax benefit	836	4.7	1,183	6.5	3,215	5.7	3,948	7.2
Other	(359 )	(2.0 )	(515 )	(2.8 )	(1,193 )	(2.1 )	(1,532 )	(2.8 )
Taxes at effective rate	\$6,661	37.7%	\$7,060	38.7%	\$21,728	38.6%	\$21,585	39.4%

The Company has recorded a deferred tax asset of \$32.6 million at September 30, 2015, which is included in "Other assets" in the Consolidated Statements of Financial Condition. This represents the anticipated net federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. The Company has reported taxable income for federal, state, and local tax purposes in each of the past three fiscal years. In management's opinion, in view of the Company's previous, current and projected future earnings trend, the probability that some of the Company's \$9.8 million deferred tax liability can be used to offset a portion of the deferred tax asset, as well as certain tax planning strategies, it is more likely than not that the deferred tax asset will be fully realized. Accordingly, no valuation allowance was deemed necessary for the deferred tax asset at September 30, 2015.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

**14. Accumulated other comprehensive income (loss):**

The following table sets forth the changes in accumulated other comprehensive income (loss), net, by component for the three months ended September 30, 2015:

	Unrealized Gains	and (Losses) Defined Benefit on Pension Items Available for Sale	Total
	Securities (In thousands)		
Beginning balance, net of tax	\$2,211	\$ (5,967 )	\$(3,756)
Other comprehensive income before reclassifications, net of tax	3,943	-	3,943
Amounts reclassified from accumulated other comprehensive income, net of tax	(58 )	167	109
Net current period other comprehensive income, net of tax	3,885	167	4,052
Ending balance, net of tax	\$6,096	\$ (5,800 )	\$296

The following table sets forth the changes in accumulated other comprehensive income (loss), net, by component for the three months ended September 30, 2014:

Unrealized Gains	Defined Benefit	Total
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	and (Losses) on	Pension Items	
	Available for Sale	Securities (In thousands)	
Beginning balance, net of tax	\$3,351	\$ (2,702)	) \$649
Other comprehensive income before reclassifications, net of tax	(2,206)	-	(2,206)
Amounts reclassified from accumulated other comprehensive income, net of tax	(2,978)	92	(2,886)
Net current period other comprehensive income (loss), net of tax	(5,184)	92	(5,092)
Ending balance, net of tax	\$(1,833)	\$ (2,610)	) \$(4,443)

- 44 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the changes in accumulated other comprehensive income (loss), net, by component for the nine months ended September 30, 2015:

	Unrealized Gains	and (Losses) Defined Benefit on Pension Items	Total
	Available for Sale	Securities (In thousands)	
Beginning balance, net of tax	\$3,392	\$ (6,299 )	\$(2,907)
Other comprehensive income before reclassifications, net of tax	2,798	-	2,798
Amounts reclassified from accumulated other comprehensive income, net of tax	(94 )	499	405
Net current period other comprehensive income, net of tax	2,704	499	3,203
Ending balance, net of tax	\$6,096	\$ (5,800 )	\$296

The following table sets forth the changes in accumulated other comprehensive income (loss), net, by component for the nine months ended September 30, 2014:

Unrealized Gains	and (Losses) on	Defined Benefit Pension Items	Total
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	Available for Sale		
	Securities (In thousands)		
Beginning balance, net of tax	\$ (8,522)	\$ (2,853 )	\$ (11,375)
Other comprehensive income before reclassifications, net of tax	9,667	-	9,667
Amounts reclassified from accumulated other comprehensive income, net of tax	(2,978)	243	(2,735 )
Net current period other comprehensive income, net of tax	6,689	243	6,932
Ending balance, net of tax	\$ (1,833)	\$ (2,610 )	\$ (4,443 )

- 45 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth significant amounts reclassified from accumulated other comprehensive income (loss) by component for the three months ended September 30, 2015:

Details about Accumulated Other	Amounts Reclassified from	Affected Line Item in the Statement
Comprehensive Income (Loss) Components	Accumulated Other Comprehensive Income (Loss)	Where Net Income is Presented
(Dollars in thousands)		
Unrealized gains on available for sale securities:	\$ 103	Net gain on sale of securities
	(45 )	Tax expense
	\$ 58	Net of tax
Amortization (accretion) of defined benefit pension items:		
Actuarial losses	\$ (307 ) (1)	Other expense
Prior service credits	11 (1)	Other expense
	(296 )	Total before tax
	129	Tax benefit
	\$ (167 )	Net of tax

These accumulated other comprehensive income (loss) components are included in the computation of net periodic (1) pension cost (See Note 10 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income (loss) by component for the three months ended September 30, 2014:

Details about Accumulated Other	Affected Line Item in the Statement
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Comprehensive Income Components (Loss)	Amounts Reclassified from	Where Net Income is Presented
	Accumulated Other	
	Comprehensive Income (Loss)	
(Dollars in thousands)		
Unrealized gains (losses) on available for sale securities:	\$ 5,216	Net gain on sale of securities
	(2,238 )	Tax expense
	\$ 2,978	Net of tax
Amortization (accretion) of defined benefit pension items:		
Actuarial losses	\$ (175 ) (1)	Other expense
Prior service credits	12 (1)	Other expense
	(163 )	Total before tax
	71	Tax benefit
	\$ (92 )	Net of tax

These accumulated other comprehensive income (loss) components are included in the computation of net periodic (1)pension cost (See Note 10 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”.)

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2015:

Details about Accumulated Other Comprehensive Income Components (Loss)	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
(Dollars in thousands)		
Unrealized gains on available for sale securities:	\$ 167	Net gain on sale of securities
	(73 )	Tax expense
	\$ 94	Net of tax
Amortization (accretion) of defined benefit pension items:		
Actuarial losses	\$ (920 ) (1)	Other expense
Prior service credits	34 (1)	Other expense
	(886 )	Total before tax
	387	Tax benefit
	\$ (499 )	Net of tax

These accumulated other comprehensive income (loss) components are included in the computation of net periodic (1) pension cost (See Note 10 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2014:

Details about Accumulated Other	Affected Line Item in the Statement
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Comprehensive Income Components (Loss)	Amounts Reclassified from	Where Net Income is Presented
	Accumulated Other	
	Comprehensive Income (Loss)	
(Dollars in thousands)		
Unrealized gains on available for sale securities:	\$ 5,216	Net gain on sale of securities
	(2,238 )	Tax expense
	\$ 2,978	Net of tax
Amortization (accretion) of defined benefit pension items:		
Actuarial losses	\$ (525 ) (1)	Other expense
Prior service credits	34 (1)	Other expense
	(491 )	Total before tax
	248	Tax benefit
	\$ (243 )	Net of tax

These accumulated other comprehensive income (loss) components are included in the computation of net periodic (1) pension cost (See Note 10 of the Notes to Consolidated Financial Statements "Pension and Other Postretirement Benefit Plans".)

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

**15. Regulatory Capital**

Under current capital regulations, the Bank is required to comply with four separate capital adequacy standards. As of September 30, 2015, the Bank continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

Set forth below is a summary of the Bank’s compliance with banking regulatory capital standards.

	September 30, 2015		December 31, 2014	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$488,327	9.02 %	\$472,251	9.63 %
Requirement to be well capitalized	270,676	5.00	245,254	5.00
Excess	217,651	4.02	226,997	4.63
Common Equity Tier I risk-based capital:				
Capital level	\$488,327	12.86 %	n/a	n/a
Requirement to be well capitalized	246,781	6.50	n/a	n/a
Excess	241,546	6.36	n/a	n/a
Tier I risk-based capital:				
Capital level	\$488,327	12.86 %	\$472,251	13.87 %
Requirement to be well capitalized	303,731	8.00	204,345	6.00
Excess	184,596	4.86	267,906	7.87
Total risk-based capital:				
Capital level	\$511,300	13.47 %	\$497,347	14.60 %



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Requirement to be well capitalized	379,664	10.00	340,589	10.00
Excess	131,636	3.47	156,758	4.60

- 48 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The Holding Company is subject to the same regulatory capital requirements as the Bank. As of September 30, 2015, the Holding Company continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

Set forth below is a summary of the Holding Company’s compliance with banking regulatory capital standards.

	September 30, 2015		December 31, 2014	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$482,684	8.93 %	\$471,233	9.62 %
Requirement to be well capitalized	270,288	5.00	244,960	5.00
Excess	212,396	3.93	226,273	4.62
Common Equity Tier I risk-based capital:				
Capital level	\$455,153	12.01 %	n/a	n/a
Requirement to be well capitalized	246,358	6.50	n/a	n/a
Excess	208,795	5.51	n/a	n/a
Tier I risk-based capital:				
Capital level	\$482,684	12.74 %	\$471,233	13.87 %
Requirement to be well capitalized	303,209	8.00	203,878	6.00
Excess	179,475	4.74	267,355	7.87
Total risk-based capital:				
Capital level	\$505,657	13.34 %	\$496,329	14.61 %
Requirement to be well capitalized	379,012	10.00	339,797	10.00
Excess	126,645	3.34	156,532	4.61

## 16. New Authoritative Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-04 to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014- 04 is effective for annual reporting periods beginning after December 15, 2014. Adoption of this update did not have a material effect on the Company’s consolidated results of operations or financial condition.

In May 2014, the FASB issued ASU 2014-09 which provides new guidance that supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition”. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Notes to Consolidated Financial Statements**

(Unaudited)

In June 2014, the FASB issued ASU 2014-11 which amends the authoritative accounting guidance under ASC Topic 860 “Transfers and Servicing.” The amendments require two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require additional disclosures regarding repurchase agreements. The amendments are effective for the first interim or annual period beginning after December 15, 2014. Entities are required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is prohibited. The amendments regarding disclosures for certain transactions accounted for as a sale are required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. Adoption of this update did not have a material effect on the Company’s consolidated results of operation or financial condition. (See Note 8 of Notes to Consolidated Financial Statements “Repurchase Agreements”.)

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Quarterly Report should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2014. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.*

*As used in this Quarterly Report, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and its direct and indirect wholly owned subsidiaries, Flushing Bank (the “Bank”), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.*

Statements contained in this Quarterly Report relating to plans, strategies, objectives, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed elsewhere in this Quarterly Report and in other documents filed by us with the Securities and Exchange Commission from time to time, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2014. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “may continue” or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

### **Executive Summary**

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and

changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Bank. On February 28, 2013, the Bank's charter was changed to a full-service New York State chartered commercial bank, and its name was changed to Flushing Bank. As a result of the Bank's change in charter to a full-service New York State chartered commercial bank, the Bank's primary regulator became the New York State Department of Financial Services (formerly, the New York State Banking Department), and its primary federal regulator became the Federal Deposit Insurance Corporation ("FDIC"). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank system. The primary business of Flushing Financial Corporation has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. The Bank also operates an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol "FFIC."

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential loans, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family loans (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) construction loans, primarily for residential properties; (3) Small Business Administration ("SBA") loans and other small business loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. Our results of operations depend primarily on net interest income, which is the difference between the income earned on its interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, income earned on Bank Owned Life Insurance ("BOLI"), dividends on Federal Home Bank of New York ("FHLB-NY") stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on real estate owned.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Management’s Discussion and Analysis of**

**Financial Condition and Results of Operations**

Our strategy is to continue our focus on being an institution serving consumers, businesses, and governmental units in our local markets. In furtherance of this objective, we intend to:

- continue our emphasis on the origination of multi-family residential mortgage loans, commercial business loans and commercial real estate mortgage loans;

- continue to transition the balance sheet to a more ‘commercial-like’ banking institution;

- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;

- maintain asset quality;

- manage deposit growth and maintain a low cost of funds through

- § business banking deposits
- § personal accounts,
- § municipal deposits through government banking, and
- § new customer relationships via iGObanking.com®;

- cross sell to lending and deposit customers;

- take advantage of market disruptions to attract talent and customers from competitors;

- manage interest rate risk and capital; and

- manage enterprise-wide risk.

There can be no assurance that we will be able to effectively implement this strategy. Our strategy is subject to change by the Board of Directors.

Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate risk and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity “gap” position, the types of securities to be held and other factors. We classify our investment securities as available for sale or held-to-maturity.

We carry a portion of our financial assets and financial liabilities at fair value and record changes in their fair value through earnings in non-interest income on our Consolidated Statements of Income and Comprehensive Income. A description of the financial assets and financial liabilities that are carried at fair value through earnings can be found in Note 11 of the Notes to the Consolidated Financial Statements.

The trend of improving credit quality continued in the third quarter of 2015, as we continued to see improvements in non-accrual loans. Non-accrual loans were \$26.3 million at September 30, 2015, which was a decrease of \$1.2 million, or 4.2%, from June 30, 2015, and are at their lowest level since the fourth quarter of 2008. The decrease in non-accrual loans and our ability to minimize charge-offs has allowed us to record a benefit of \$0.4 million in our reserve for loan losses during the three months ended September 30, 2015, which is the seventh consecutive quarter of recording a benefit. During the third quarter of 2015 we sold six delinquent loans with a book value of \$2.3 million, receiving \$2.3 million upon sale. Net recoveries for the three months ended September 30, 2015 were \$0.3 million. We continued our practice of obtaining updated appraisals and recording charge-offs based on these current values as opposed to adding to the allowance for loan losses. This process has ensured that we have kept pace with changing values in the real estate market. The average loan-to-value ratio for our non-performing loans collateralized by real estate was 44.6% at September 30, 2015.

Net loans increased \$169.9 million, or 4.2%, during the third quarter of 2015. Loan originations and purchases for the three months ended September 30, 2015 totaled \$334.5 million at an average yield of 3.56%. The quarter included the purchase of loan participations totaling \$65.1 million in multi-family real estate at an average yield of 3.63%, \$20.0 million in commercial real estate loans at an average yield of 3.13% and \$5.2 million in commercial business loans, at an average yield of 3.66%. We continued our focus on the origination and purchase of multi-family real estate, commercial real estate and commercial business loans as originations and purchases of these loan types accounted for 88.4% of the quarter’s originations. Loan applications in process have continued to remain strong, totaling \$381.9 million at September 30, 2015 compared to \$469.2 million at June 30, 2015.



## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

During the prior quarter we completed the move of our headquarters to RXR Plaza. The new office space allows us to bring a majority of our non-branch staff into one location providing efficiencies and synergies which were not available when the staff was spread throughout many different locations. As part of the move we also opened a new full-service branch at the same location. Additionally, during the prior quarter we sold three of our branch buildings in a sale leaseback transaction, realizing a gain on sale of \$12.7 million, of which \$6.5 million was recognized in earnings during the three months ended June 30, 2015 and \$6.2 million will be deferred and recognized over the term of the branch leases.

Our net interest margin for the third quarter of 2015 was 3.05%, an increase of two basis points from the second quarter of 2015. Net interest income increased \$1.2 million during the three months ended September 30, 2015 to \$39.3 million, compared to the second quarter of 2015 due to the increase in interest-earning assets. The increase in net interest income was affected in the third quarter of 2015 by elevated levels of prepayment penalty income and interest recovered from non-accrual loans. Absent these two items, the net interest margin would have decreased by five basis points to 2.85% for the third quarter of 2015 from 2.90% for the second quarter of 2015.

At September 30, 2015, the Bank was considered to be well-capitalized under all regulatory requirements, with Tier 1, Common Equity Tier 1 Risk-based, Tier 1 Risk-based and Total Risk-based capital ratios of 9.02%, 12.86%, 12.86% and 13.47%, respectively. The Company also is subject to the same regulatory requirements. At September 30, 2015, the Company’s capital ratios for Tier 1, Common Equity Tier 1 Risk-based, Tier 1 Risk-based and Total Risk-based capital ratios were 8.93%, 12.01%, 12.74% and 13.34%, respectively.

#### **COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

**General.** Net income for the three months ended September 30, 2015 was \$11.0 million, a decrease of \$0.2 million, or 1.7%, compared to \$11.2 million for the three months ended September 30, 2014. Diluted earnings per common share were \$0.38 for the three months ended September 30, 2015 and 2014.

Return on average equity decreased to 9.5% for the three months ended September 30, 2015 from 9.9% for the three months ended September 30, 2014. Return on average assets decreased to 0.8% for the three months ended September

30, 2015 from 0.9% for the three months ended September 30, 2014.

**Interest Income.** Total interest and dividend income increased \$2.7 million, or 5.6%, to \$51.9 million for the three months ended September 30, 2015 from \$49.2 million for the three months ended September 30, 2014. The increase in interest income was primarily attributable to an increase of \$544.0 million in the average balance of interest-earning assets to \$5,151.0 million for the three months ended September 30, 2015 from \$4,607.0 million for the comparable prior year period, partially offset by a decrease of 24 basis points in the yield on interest-earning assets to 4.03% for the three months ended September 30, 2015 from 4.27% in the comparable prior year period. The 24 basis point decline in the yield on interest-earning assets was primarily due to a 34 basis point reduction in the yield of the loan portfolio to 4.45% for the three months ended September 30, 2015 from 4.79% for the three months ended September 30, 2014, combined with an increase of \$50.5 million in the average balance of lower yielding interest-earning deposits and federal funds sold to \$76.5 million for the three months ended September 30, 2015 from \$26.0 million in the comparable prior year period. The yield on interest-earning assets was positively impacted by an increase of \$503.3 million in the average balance of the higher yielding total loans, net to \$4,069.7 million for the three months ended September 30, 2015 from \$3,566.4 million for the comparable prior year period. Additionally, the yield of the securities portfolio increased eight basis points to 2.64% for three months ended September 30, 2015, from 2.56% for the comparable prior year period. The 34 basis point decrease in the yield of the loan portfolio was primarily due to the decline in the rates earned on new loan originations, as compared to the existing portfolio, existing loans modifying to lower rates, and higher yielding loans prepaying. The eight basis point increase in the yield of the securities portfolio was primarily due to prepayment penalty income of \$0.2 million for the three months ended September 30, 2015, whereas no prepayment penalty income was received on securities in the comparable prior year period. Excluding prepayment penalty income from loans and securities, the yield on total loans, net, would have decreased 37 basis points to 4.25% for the three months ended September 30, 2015 from 4.62% for the three months ended September 30, 2014, while the yield on total securities was 2.56% for the three months ended September 30, 2015 and 2014.

## PART I – FINANCIAL INFORMATION

### FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

#### Management's Discussion and Analysis of

#### Financial Condition and Results of Operations

**Interest Expense.** Interest expense decreased \$4.6 million, or 26.8%, to \$12.6 million for the three months ended September 30, 2015 from \$17.2 million for the three months ended September 30, 2014. The decrease in interest expense was primarily due to the absence of a \$5.2 million prepayment penalty recorded on borrowings in the comparable 2014 period as a result of a balance sheet deleveraging. Absent the prepayment penalty on borrowings, the cost of interest-bearing liabilities would have decreased seven basis points to 1.09% for the three months ended September 30, 2015 from 1.16% for the quarter ended September 30, 2014. The seven basis point decrease in the cost of interest-bearing liabilities was primarily attributable to decreases of 23 basis points and 16 basis points in the cost of certificates of deposit and borrowed funds, respectively. The decrease in the cost of certificates of deposit and borrowed funds was primarily due to maturing issuances being replaced at lower rates. These decreases were partially offset by increases of 26 basis points, 13 basis points, and three basis points in the cost of savings, money market and NOW accounts, respectively, for the three months ended September 30, 2015 from the comparable prior year period. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to a money market product which does not require us to provide collateral, which allows us to invest these funds in higher yielding assets. The cost of NOW accounts increased primarily due to an increase in the rate we pay on our premium checking product. Additionally, the cost of interest-bearing liabilities was negatively affected by increases of \$137.9 million and \$132.8 million in the average balance of higher costing borrowed funds and certificates of deposit, respectively, during the three months ended September 30, 2015, which was partially offset by an increase of \$219.3 million in the average balance of lower costing core deposits during the three months ended September 30, 2015 to \$2,081.8 million from \$1,862.5 million for the comparable prior year period.

**Net Interest Income.** For the three months ended September 30, 2015, net interest income was \$39.3 million, an increase of \$7.4 million, or 23.0%, from \$32.0 million for the three months ended September 30, 2014. The increase in net interest income was due to the growth of net interest-earning assets, an increase in prepayment penalty income and the absence of a \$5.2 million prepayment penalty recorded on borrowings in the comparable 2014 period as a result of a balance sheet deleveraging.

Excluding the \$5.2 million prepayment penalty on borrowings during the three months ended September 30, 2014, net interest income would have increased \$2.2 million, or 5.8%, to \$39.3 million from \$37.1 million for the quarter ended September 30, 2014. Average interest-earning assets increased \$544.0 million to \$5,151.0 million for the three months ended September 30, 2015 from \$4,607.0 million for the comparable prior year period while the yield decreased 24 basis points to 4.03% for the quarter ended September 30, 2015 from 4.27% for the comparable prior year period. Absent the prepayment penalty on borrowings, the cost of interest-bearing liabilities decreased seven basis points to 1.09% for the three months ended September 30, 2015 as compared to 1.16% for the quarter ended September 30, 2014. The effects of the above on both the net interest spread and net interest margin was a decrease of 17 basis points to 2.94% and 3.05%, respectively, for the quarter ended September 30, 2015, compared to the quarter ended

September 30, 2014. Included in net interest income for the three months ended September 30, 2015 and 2014 was prepayment penalty income from loans and securities totaling \$2.2 million and \$1.4 million, respectively, along with recovered interest from non-accrual loans totaling \$0.4 million and \$0.3 million, respectively. Without the prepayment penalty income, recovered interest and prepayment penalty on borrowings, the net interest margin for the three months ended September 30, 2015 would have been 2.85%, a decrease of 22 basis points, as compared to 3.07% for the three months ended September 30, 2014.

***Benefit for Loan Losses.*** The benefit for loan losses for the three months ended September 30, 2015 was \$0.4 million, a decrease of \$0.2 million, or 40.1%, from a benefit of \$0.6 million recorded during the comparable prior year period. The benefit recorded during the three months ended September 30, 2015 was primarily due to the continued improvement in credit conditions and an improvement in the impact of the qualitative factors used in the calculation of the allowance for loan losses. During the three months ended September 30, 2015, non-accrual loans decreased \$1.2 million to \$26.3 million from \$27.5 million at June 30, 2015 and net recoveries totaled \$0.3 million. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 44.6% at September 30, 2015. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. As a result of the quarterly analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of \$0.4 million for the three months ended September 30, 2015. See “-ALLOWANCE FOR LOAN LOSSES.”

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

***Non-Interest Income.*** Non-interest income for the three months ended September 30, 2015 was \$1.7 million, a decrease of \$5.4 million, or 76.2%, from \$7.1 million for the three months ended September 30, 2014. The decrease in non-interest income was primarily due to the \$5.2 million net gain from the sale of mortgage-backed securities during the three months ended September 30, 2014, as part of our balance sheet deleveraging. Additionally, non-interest income decreased due to an increase of \$0.6 million in net losses from fair value adjustments, partially offset by \$0.3 million in net gains on sale of loans recorded during the three months ended September 30, 2015.

***Non-Interest Expense.*** Non-interest expense was \$23.7 million for the three months ended September 30, 2015, an increase of \$2.3 million, or 10.6%, from \$21.4 million for the three months ended September 30, 2014. The increase in non-interest expense was primarily due to increases of \$0.8 million in other operating expense, \$0.5 million in salaries and benefits, \$0.4 million in occupancy and equipment, \$0.3 million in professional services, \$0.3 million in depreciation and amortization and \$0.2 million in data processing expense. The increase in salaries and benefits was primarily due to increases in staffing in the technology, risk/compliance and retail departments. The increases in occupancy and equipment and depreciation and amortization were primarily due to the opening of two new branches along with the move to and consolidation of staff at our new larger corporate headquarters in 2015. The increase in professional services was primarily due to increases in costs related to enhancing our compliance program and advertising expense. These increases were partially offset by a decrease of \$0.3 million in foreclosure expenses. The efficiency ratio increased to 56.2% for the three months ended September 30, 2015 from 54.1% for the three months ended September 30, 2014, primarily due to the increased expenses discussed above.

***Income before Income Taxes.*** Income before the provision for income taxes decreased \$0.6 million, or 3.2%, to \$17.7 million for the three months ended September 30, 2015 from \$18.3 million for the three months ended September 30, 2014 for the reasons discussed above.

***Provision for Income Taxes.*** Income tax expense decreased \$0.4 million, or 5.7%, to \$6.7 million for the three months ended September 30, 2015 from \$7.1 million for the three months ended September 30, 2014, primarily due to the decrease in income before income taxes as discussed above. The effective tax rate was 37.7% and 38.7% for the three months ended September 30, 2015 and 2014, respectively.

**COMPARISON OF OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

**General.** Net income for the nine months ended September 30, 2015 was \$34.6 million, an increase of \$1.4 million, or 4.2%, compared to \$33.2 million for the nine months ended September 30, 2014. Diluted earnings per common share were \$1.18 for the nine months ended September 30, 2015, an increase of \$0.07, or 6.3%, from \$1.11 for the nine months ended September 30, 2014.

Return on average equity increased to 10.0% for the nine months ended September 30, 2015, from 9.9% for the nine months ended September 30, 2014. Return on average assets was 0.9% for the nine months ended September 30, 2015 and 2014.

**Interest Income.** Total interest and dividend income increased \$3.7 million, or 2.5%, to \$151.7 million for the nine months ended September 30, 2015 from \$148.0 million for the nine months ended September 30, 2014. The increase in interest income was primarily attributable to an increase of \$458.9 million in the average balance of interest-earning assets to \$5,016.5 million for the nine months ended September 30, 2015 from \$4,557.7 million for the comparable prior year period, partially offset by a decrease of 30 basis points in the yield on interest-earning assets to 4.03% for the nine months ended September 30, 2015 from 4.33% in the comparable prior year period. The 30 basis point decline in the yield on interest-earning assets was primarily due to a 40 basis point reduction in the yield of the loan portfolio to 4.47% for the nine months ended September 30, 2015 from 4.87% for the nine months ended September 30, 2014, combined with a 14 basis point decline in the yield on total securities to 2.52% for the nine months ended September 30, 2015 from 2.66% for the comparable prior year period. The yield on interest-earning assets was positively impacted by an increase of \$485.4 million in the average balance of the higher yielding total loans, net to \$3,967.2 million for the nine months ended September 30, 2015 from \$3,481.8 million for the comparable prior year period and a decrease of \$46.5 million in the average balance of the lower yielding total securities portfolio to \$989.2 million for the nine months ended September 30, 2015 from \$1,035.7 million for the comparable prior year period. The 40 basis point decrease in the yield of the loan portfolio was primarily due to the decline in the rates earned on new loan originations, as compared to the existing portfolio, existing loans modifying to lower rates, and higher yielding loans prepaying. The 14 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio. Excluding prepayment penalty income from loans, the yield on total loans, net, would have decreased 41 basis points to 4.31% for the nine months ended September 30, 2015 from 4.72% for the nine months ended September 30, 2014, while the yield on total securities decreased 16 basis points to 2.50% for the nine months ended September 30, 2015 from 2.66% for the nine months ended September 30, 2014.

## PART I – FINANCIAL INFORMATION

### FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

#### Management's Discussion and Analysis of

#### Financial Condition and Results of Operations

**Interest Expense.** Interest expense decreased \$6.0 million, or 14.1%, to \$36.7 million for the nine months ended September 30, 2015 from \$42.7 million for the nine months ended September 30, 2014. The decrease in interest expense was primarily due to the absence of a \$5.2 million prepayment penalty recorded on borrowings in the comparable 2014 period as a result of a balance sheet deleveraging. Absent the prepayment penalty on borrowings, the cost of interest-bearing liabilities would have decreased 13 basis points to 1.08% for the nine months ended September 30, 2015 from 1.21% for the comparable prior year period. The 13 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to decreases of 37 basis points and 24 basis points in the cost of certificates of deposit and borrowed funds, respectively. The decrease in the cost of certificates of deposit and borrowed funds was primarily due to maturing issuances being replaced at lower rates. These decreases were partially offset by increases of 25 basis points and 13 basis points in the cost of savings and money market accounts, respectively, for the nine months ended September 30, 2015 from the comparable prior year period. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to a money market product which does not require us to provide collateral, which allows us to invest these funds in higher yielding assets. Additionally, the cost of interest-bearing liabilities was negatively affected by increases of \$169.2 million and \$81.3 million in the average balance of higher costing certificates of deposit and borrowed funds, respectively, during the nine months ended September 30, 2015, which was partially offset by an increase of \$150.6 million in the average balance of lower costing core deposits during the nine months ended September 30, 2015 to \$2,060.1 million from \$1,909.5 million for the comparable prior year period.

**Net Interest Income.** For the nine months ended September 30, 2015, net interest income was \$115.0 million, an increase of \$9.7 million, or 9.2%, from \$105.3 million for the nine months ended September 30, 2014. The increase in net interest income was due to the growth of net interest-earning assets, an increase in prepayment penalty income and the absence of a \$5.2 million prepayment penalty recorded on borrowings in the comparable 2014 period as a result of a balance sheet deleveraging.

Excluding the \$5.2 million prepayment penalty on borrowings during the nine months ended September 30, 2014, net interest income would have increased \$4.5 million, or 4.1%, to \$115.0 million from \$110.5 million for the nine months ended September 30, 2014. Average interest-earning assets increased \$458.9 million to \$5,016.5 million for the nine months ended September 30, 2015 from \$4,557.7 million for the comparable prior year period while the yield decreased 30 basis points to 4.03% for the nine months ended September 30, 2015 from 4.33% for the comparable prior year period. Absent the prepayment penalty on borrowings, the cost of interest-bearing liabilities would have decreased 13 basis points to 1.08% for the nine months ended September 30, 2015 as compared to 1.21% for the nine months ended September 30, 2014. The effects of the above on both the net interest spread and net interest margin was a decrease of 17 basis points to 2.95% and 3.06%, respectively, for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Included in net interest income for the nine months ended

September 30, 2015 and 2014 was prepayment penalty income from loans and securities totaling \$4.9 million and \$4.1 million, respectively, along with recovered interest from non-accrual loans totaling \$1.2 million and \$1.0 million, respectively. Without the prepayment penalty income, recovered interest and prepayment penalty on borrowings, the net interest margin for the nine months ended September 30, 2015 would have been 2.89%, a decrease of 19 basis points, as compared to 3.08% for the nine months ended September 30, 2014.

***Benefit for Loan Losses.*** The benefit for loan losses for the nine months ended September 30, 2015 was \$1.6 million, a decrease of \$1.2 million, or 42.7%, from a benefit of \$2.8 million recorded during the comparable prior year period. The benefit recorded during the nine months ended September 30, 2015 was primarily due to the continued improvement in credit conditions and an improvement in the impact of the qualitative factors used in the calculation of the allowance for loan losses. During the nine months ended September 30, 2015, non-accrual loans decreased \$5.6 million to \$26.3 million from \$31.9 million at December 31, 2014 and net charge-offs continued to be minimal at \$0.5 million, or two basis points of average loans, for the nine months ended September 30, 2015. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 44.6% at September 30, 2015. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. As a result of the quarterly analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of \$1.6 million for the nine months ended September 30, 2015. See “-ALLOWANCE FOR LOAN LOSSES.”



## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

**Non-Interest Income.** Non-interest income for the nine months ended September 30, 2015 was \$13.6 million, an increase of \$2.8 million, or 25.5%, from \$10.8 million for the nine months ended September 30, 2014. The increase in non-interest income was primarily due to increases of \$6.5 million in net gains on sale of buildings, as we sold and leased back our Brooklyn branch buildings, \$0.4 million in net gains on sale of loans and \$0.4 million in investment products. Additionally, non-interest income increased due to a decrease of \$0.6 million in net losses from fair value adjustments. These increases to non-interest income were partially offset by a decrease of \$5.0 million in net gains on sale of securities, primarily due to the comparable prior year period including a gain on sale of securities totaling \$5.2 million, as part of a balance sheet deleveraging.

**Non-Interest Expense.** Non-interest expense was \$73.9 million for the nine months ended September 30, 2015, an increase of \$9.7 million, or 15.2%, from \$64.2 million for the nine months ended September 30, 2014. The increase in non-interest expense was primarily due to increases of \$3.8 million in salaries and benefits, \$2.7 million in other operating expense and \$1.8 million in occupancy and equipment expense. The increase in salaries and benefits was primarily due to annual salary increases, increases in staffing in the technology, risk/compliance and retail departments, as well as an increase in restricted stock expense. The increase in other operating expense was primarily due to \$0.3 million in ATM fraud losses recorded in the first quarter of 2015, \$0.7 million in expenses related to the move of our corporate headquarters, \$1.0 million in expenses related to the growth of the Bank and an increase of \$0.7 million in net losses from the sale of OREO. The growth in occupancy and equipment expense was primarily due to \$0.2 million recorded in the first quarter of 2015 for temporary staff for additional security to guard against further ATM fraud losses, increases in rent expense of \$1.1 million for our new corporate headquarters and new branch at the same location and \$0.4 million from additional space in Manhattan for Business Bankers and a new branch location, which opened in September 2015. Additionally, during the current period the Bank also experienced increases of \$0.7 million in professional services, primarily due to costs related to enhancing our compliance program and \$0.4 million, \$0.3 million and \$0.2 million in depreciation and amortization expense, data processing expense and FDIC insurance expense, respectively, due to the growth of the Bank, partially offset by a decrease of \$0.2 million in OREO foreclosure expenses. The efficiency ratio increased to 59.5% for the nine months ended September 30, 2015 from 54.5% for the nine months ended September 30, 2014, primarily due to the increased expenses discussed above.

**Income before Income Taxes.** Income before the provision for income taxes increased \$1.5 million, or 2.8%, to \$56.3 million for the nine months ended September 30, 2015 from \$54.8 million for the nine months ended September 30, 2014 for the reasons discussed above.

**Provision for Income Taxes.** The provision for income taxes for the nine months ended September 30, 2015 was \$21.7 million, an increase of \$0.1 million, or 0.7%, from \$21.6 million for the comparable prior year period. The

increase was primarily due to an increase of \$1.5 million in income before income taxes, partially offset by a decrease in the effective tax rate to 38.6% for the nine months ended September 30, 2015 from 39.4% for the nine months ended September 30, 2014. The decrease in the effective tax rate was primarily due to the prior year being affected by changes in New York State tax code passed on March 31, 2014, which resulted in a reduction in the Company's deferred tax assets and a corresponding increase in tax expense during the nine months ended September 30, 2014.

## **FINANCIAL CONDITION**

**Assets.** Total assets at September 30, 2015 were \$5,502.1 million, an increase of \$425.1 million, or 8.4%, from \$5,077.0 million at December 31, 2014. Total loans, net increased \$392.7 million, or 10.4%, during the nine months ended September 30, 2015 to \$4,178.0 million from \$3,785.3 million at December 31, 2014. Loan originations and purchases were \$837.9 million for the nine months ended September 30, 2015, an increase of \$200.5 million from \$637.3 million for the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we continued to focus on the origination and purchase of multi-family residential, commercial real estate and commercial business loans with a full relationship. The loan pipeline remained strong, totaling \$381.9 million at September 30, 2015 compared to \$295.9 million at December 31, 2014.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table shows loan originations and purchases for the periods indicated:

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Multi-family residential <sup>(1)</sup>	\$91,306	\$79,753	\$268,481	\$244,762
Commercial real estate <sup>(2)</sup>	151,358	68,875	295,084	100,496
One-to-four family – mixed-use property	20,008	13,938	44,905	32,366
One-to-four family – residential	12,618	5,426	34,696	20,930
Co-operative apartments	1,915	-	2,365	-
Construction	1,999	404	3,386	1,401
Small Business Administration	2,232	499	8,713	1,077
Taxi Medallion <sup>(3)</sup>	-	893	-	14,431
Commercial business and other <sup>(4)</sup>	53,028	78,382	180,239	221,880
<b>Total</b>	<b>\$334,464</b>	<b>\$248,170</b>	<b>\$837,869</b>	<b>\$637,343</b>

(1) Includes purchases of \$20.0 million and \$119.9 million for the three and nine months ended September 30, 2015, respectively.

(2) Includes purchases of \$65.1 million and \$10.0 million for the three months ended September 30, 2015 and 2014, respectively. Includes purchases of \$76.1 million and \$10.0 million for the nine months ended September 30, 2015 and 2014, respectively.

(3) Includes purchases of \$0.9 million and \$14.4 million for the three and nine months ended September 30, 2014, respectively.

(4) Includes purchases of \$5.2 million for the three months ended September 30, 2015. Includes purchases of \$20.4 million and \$30.6 million for the nine months ended September 30, 2015 and 2014, respectively.

The Bank continues to maintain conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the third quarter of 2015 had an average loan-to-value ratio of 41.3% and an average debt coverage ratio of 237%.

The Bank’s non-performing assets totaled \$33.5 million at September 30, 2015, an increase of \$0.6 million from \$32.8 million at June 30, 2015, but a decrease of \$7.1 million from \$40.5 million at December 31, 2014.

Total non-performing assets as a percentage of total assets were 0.61% at September 30, 2015 and June 30, 2015, compared to 0.80% at December 31, 2014. The ratio of allowance for loan losses to total non-performing loans was 80.3% at September 30, 2015, compared to 80.8% at June 30, 2015 and 73.4% at December 31, 2014. See – “TROUBLED DEBT RESTRUCUTURED AND NON-PERFORMING ASSETS.”

During the nine months ended September 30, 2015, mortgage-backed securities decreased \$14.9 million, or 2.1%, to \$690.0 million from \$704.9 million at December 31, 2014. The decrease in mortgage-backed securities during the nine months ended September 30, 2015 was primarily due to sales of \$103.1 million and principal repayments of \$75.7 million, which was partially offset by purchases of \$159.8 million at an average yield of 2.63% and an increase of \$6.3 million in the fair value of mortgage-backed securities.

During the nine months ended September 30, 2015, other securities, including securities held-to-maturity, increased \$56.3 million, or 21.0%, to \$324.7 million from \$268.4 million at December 31, 2014. The increase in other securities during the nine months ended September 30, 2015 was primarily due to purchases of \$134.7 million at an average yield of 3.33%, which was partially offset by sales, maturities, principal repayments and a decrease in the fair value of other securities totaling \$59.9 million, \$9.0 million, \$8.0 million, and \$1.3 million, respectively. Other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, collateralized loan obligations and corporate bonds.

**Liabilities.** Total liabilities were \$5,030.9 million at September 30, 2015, an increase of \$410.1 million, or 8.9%, from \$4,620.8 million at December 31, 2014. During the nine months ended September 30, 2015, due to depositors increased \$209.8 million, or 6.0%, to \$3,682.7 million, due to increases of \$128.7 million in core deposits and \$81.1 million in certificates of deposit. The increase in core deposits was due to increases of \$148.2 million and \$1.4 million in money market and demand accounts, respectively, partially offset by decreases of \$20.3 million and \$0.5 million in NOW and savings accounts, respectively. Borrowed funds increased \$180.1 million during the nine months ended September 30, 2015. The increase in borrowed funds was primarily due to the addition of \$225.0 million in long-term borrowing at an average cost of 1.29% and a net increase in short-term borrowings totaling \$45.0 million at an average cost of 0.34%, partially offset by the maturity of \$90.0 million in long-term borrowings at an average cost of 0.94%.

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

**Equity.** Total stockholders’ equity increased \$14.9 million, or 3.3%, to \$471.2 million at September 30, 2015 from \$456.2 million at December 31, 2014. Stockholders’ equity increased primarily due to net income of \$34.6 million, an increase in additional paid in capital of \$3.5 million from the vesting and exercising of shares of employee and director stock plans, and an increase of \$3.2 million in accumulated other comprehensive income (loss) primarily due to an increase in the fair value of the securities portfolio for the nine months ended September 30, 2015. These increases were partially offset by the purchase of 735,599 treasury shares in the open market, at an average price of \$19.51 per share, for a total cost of \$14.4 million, and the declaration and payment of dividends on the Company’s common stock of \$0.48 per common share totaling \$14.0 million. Book value per common share was \$16.34 at September 30, 2015 compared to \$15.52 at December 31, 2014.

**Cash flow.** During the nine months ended September 30, 2015, funds provided by the Company's operating activities amounted to \$34.5 million. These funds combined with \$369.0 million provided from financing activities were utilized to fund net investing activities of \$403.3 million. The Company's primary business objective is the origination and purchase of multi-family residential loans, commercial business loans and commercial real estate mortgage loans and to a lesser extent one-to-four family (including mixed-use properties) and SBA loans. During the nine months ended September 30, 2015, the net total of loan originations and purchases less loan repayments and sales was \$369.0 million. During the nine months ended September 30, 2015, the Company also purchased \$297.6 million in securities. During the nine months ended September 30, 2015, funds were provided by net increases of \$218.0 million and \$45.0 million in total deposits and short-term borrowed funds, respectively, and \$225.0 million in long-term borrowings. Additionally, funds were provided by \$257.3 million in proceeds from maturities, sales, calls and prepayments of securities and \$20.2 million in proceeds from the sale of buildings. The Company also used funds of \$90.0 million, \$14.0 million and \$15.6 million for the repayment of long-term borrowed funds, dividend payments and purchases of treasury stock, respectively, during the nine months ended September 30, 2015.

#### **INTEREST RATE RISK**

The Consolidated Statements of Financial Position have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in fair value of certain investments due to changes in interest rates. Generally, the fair value of financial investments such as loans and securities fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Company’s interest-earning assets which could adversely affect the Company’s results of operations if such assets were sold, or, in the case of securities classified as available-for-sale, decreases in the Company’s stockholders’ equity, if such securities were retained.

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the “Earnings and Economic Exposure to Changes in Interest Rate” report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company’s regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the fair value of assets net of the fair value of liabilities. The fair value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the fair value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at September 30, 2015. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At September 30, 2015, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table presents the Company’s interest rate shock as of September 30, 2015:

Change in Interest Rate	Projected Percentage Change In		
	Net Interest Income	Net Portfolio Value	Net Portfolio Value Ratio
-200 Basis points	-2.22 %	10.26 %	11.67 %
-100 Basis points	0.74	7.61	11.56
Base interest rate	0.00	0.00	11.03
+100 Basis points	-4.61	-12.98	9.90
+200 Basis points	-9.67	-28.56	8.42

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations****AVERAGE BALANCES**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended September 30, 2015 and 2014, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the three months ended September 30,					
	2015			2014		
	Average	Interest	Yield/ Cost	Average	Interest	Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets:</b>						
Mortgage loans, net <sup>(1)</sup>	\$3,561,262	\$40,754	4.58%	\$3,101,682	\$38,440	4.96%
Other loans, net <sup>(1)</sup>	508,388	4,489	3.53	464,676	4,228	3.64
Total loans, net	4,069,650	45,243	4.45	3,566,358	42,668	4.79
<b>Taxable securities: <sup>(3)</sup></b>						
Mortgage-backed securities	692,777	4,307	2.49	727,935	4,761	2.62
Other securities	176,072	1,290	2.93	152,009	871	2.29
Total taxable securities	868,849	5,597	2.58	879,944	5,632	2.56
<b>Tax-exempt securities: <sup>(2)(3)</sup></b>						
Other securities	136,043	1,030	3.03	134,780	867	2.57
Total tax-exempt securities	136,043	1,030	3.03	134,780	867	2.57
Interest-earning deposits and federal funds sold	76,473	43	0.22	25,954	10	0.15
Total interest-earning assets	5,151,015	51,913	4.03	4,607,036	49,177	4.27
Other assets	276,604			252,681		
Total assets	\$5,427,619			\$4,859,717		

**Liabilities and Equity****Interest-bearing liabilities:****Deposits:**



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Savings accounts	\$262,535	297	0.45	\$253,623	123	0.19
NOW accounts	1,398,358	1,646	0.47	1,329,329	1,464	0.44
Money market accounts	420,860	455	0.43	279,528	208	0.30
Certificate of deposit accounts	1,391,511	5,276	1.52	1,258,695	5,492	1.75
Total due to depositors	3,473,264	7,674	0.88	3,121,175	7,287	0.93
Mortgagors' escrow accounts	44,606	27	0.24	41,510	49	0.47
Total deposits	3,517,870	7,701	0.88	3,162,685	7,336	0.93
Borrowed funds	1,125,291	4,902	1.74	987,380	9,884	4.00
Total interest-bearing liabilities	4,643,161	12,603	1.09	4,150,065	17,220	1.66
Non interest-bearing deposits	254,435			213,715		
Other liabilities	65,843			41,357		
Total liabilities	4,963,439			4,405,137		
Equity	464,180			454,580		
Total liabilities and equity	\$5,427,619			\$4,859,717		
Net interest income / net interest rate spread		\$39,310	2.94%		\$31,957	2.61%
Net interest-earning assets / net interest margin	\$507,854		3.05%	\$456,971		2.77%
Ratio of interest-earning assets to interest-bearing liabilities			1.11X			1.11X

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$1.4 million and \$1.3 million for the three months ended September 30, 2015 and 2014, respectively.

(2) Interest income on tax-exempt securities does not include the tax benefit of the tax-exempt securities.

Security interest income includes prepayment penalty income of approximately \$0.2 million for the three months (3) ended September 30, 2015. No prepayment penalty income was received on securities during the three months ended September 30, 2014.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

The following table sets forth certain information relating to the Company's Consolidated Statements of Financial Condition and Consolidated Statements of Income for the nine months ended September 30, 2015 and 2014, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the nine months ended September 30,					
	2015			2014		
	Average	Interest	Yield/ Cost	Average	Interest	Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets:</b>						
Mortgage loans, net <sup>(1)</sup>	\$3,466,085	\$119,931	4.61 %	\$3,044,350	\$115,352	5.05 %
Other loans, net <sup>(1)</sup>	501,154	12,930	3.44	437,494	11,925	3.63
Total loans, net	3,967,239	132,861	4.47	3,481,844	127,277	4.87
<b>Taxable securities:<sup>(3)</sup></b>						
Mortgage-backed securities	700,563	13,028	2.48	755,620	15,471	2.73
Other securities	151,589	2,897	2.55	140,908	2,633	2.49
Total taxable securities	852,152	15,925	2.49	896,528	18,104	2.69
<b>Tax-exempt securities: <sup>(2)(3)</sup></b>						
Other securities	137,093	2,796	2.72	139,167	2,521	2.42
Total tax-exempt securities	137,093	2,796	2.72	139,167	2,521	2.42
<b>Interest-earning deposits and federal funds sold</b>						
	60,028	96	0.21	40,117	55	0.18
Total interest-earning assets	5,016,512	151,678	4.03	4,557,656	147,957	4.33
Other assets	274,581			252,922		
Total assets	\$5,291,093			\$4,810,578		
<b>Liabilities and Equity</b>						
<b>Interest-bearing liabilities:</b>						
<b>Deposits:</b>						
Savings accounts	\$265,831	852	0.43	\$258,621	358	0.18
NOW accounts	1,441,598	4,847	0.45	1,419,463	4,743	0.45
Money market accounts	352,639	1,015	0.38	231,426	441	0.25
Certificate of deposit accounts	1,343,588	15,809	1.57	1,174,360	17,088	1.94
Total due to depositors	3,403,656	22,523	0.88	3,083,870	22,630	0.98
Mortgagors' escrow accounts	51,772	73	0.19	47,333	94	0.26

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Total deposits	3,455,428	22,596	0.87	3,131,203	22,724	0.97
Borrowed funds	1,070,801	14,078	1.75	989,487	19,960	2.69
Total interest-bearing liabilities	4,526,229	36,674	1.08	4,120,690	42,684	1.38
Non interest-bearing deposits	243,693			202,159		
Other liabilities	57,855			38,632		
Total liabilities	4,827,777			4,361,481		
Equity	463,316			449,097		
Total liabilities and equity	\$5,291,093			\$4,810,578		
Net interest income / net interest rate spread		\$115,004	2.95%		\$105,273	2.95%
Net interest-earning assets / net interest margin	\$490,283		3.06%	\$436,966		3.08%
Ratio of interest-earning assets to interest-bearing liabilities			1.11 X			1.11 X

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$3.2 million and \$3.5 million for the nine months ended September 30, 2015 and 2014, respectively.

(2) Interest income on tax-exempt securities does not include the tax benefit of the tax-exempt securities.

Security interest income includes prepayment penalty income of approximately \$0.2 million for the nine months (3) ended September 30, 2015. No prepayment penalty income was received on securities during the nine months ended September 30, 2014.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations****LOANS**

The following table sets forth the Company’s loan originations (including the net effect of refinancing) and the changes in the Company’s portfolio of loans, including purchases, sales and principal reductions for the periods indicated.

(In thousands)	For the nine months ended September 30,	
	2015	2014
Mortgage Loans		
At beginning of period	\$3,321,501	\$3,028,452
Mortgage loans originated:		
Multi-family residential	148,592	244,762
Commercial real estate	219,031	90,496
One-to-four family – mixed-use property	44,905	32,366
One-to-four family – residential	34,696	20,930
Co-operative apartments	2,365	-
Construction	3,386	1,401
Total mortgage loans originated	452,975	389,955
Mortgage loans purchased:		
Multi-family residential	119,889	-
Commercial real estate	76,053	10,000
Total mortgage loans purchased	195,942	10,000
Less:		
Principal and other reductions	283,885	266,793
Loans transferred to Available for Sale	300	-
Sales	10,063	5,943
At end of period	\$3,676,170	\$3,155,671
Non-Mortgage Loans		

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At beginning of period	\$477,153	\$394,556
Other loans originated:		
Small Business Administration	8,713	1,077
Commercial business	157,711	219,820
Other	2,137	2,060
Total other loans originated	168,561	222,957
Other loans purchased:		
Taxi medallion	-	14,431
Commercial business	20,391	-
Total other loans purchased	20,391	14,431
Less:		
Principal and other reductions	151,690	152,816
Sales	3,765	-
At end of period	\$510,650	\$479,128

- 63 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations****TROUBLED DEBT RESTRUCUTURED (“TDR”) AND NON-PERFORMING ASSETS**

Management continues to adhere to the Bank’s conservative underwriting standards. The majority of the Bank’s non-performing loans are collateralized by residential income producing properties that are occupied, thereby retaining more of their value and reducing the potential loss. The Bank takes a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with a Bank representative. The Bank has been developing short-term payment plans that enable certain borrowers to bring their loans current. The Bank reviews its delinquencies on a loan by loan basis and continually explores ways to help borrowers meet their obligations and return them back to current status. At times, the Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Bank. This restructure may include making concessions to the borrower that the Bank would not make in the normal course of business, such as reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. The Bank believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. The Bank classifies these loans as TDR. Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table below, as they are placed on non-accrual status and reported as non-performing loans.

The following table shows loans classified as TDR that are performing according to their restructured terms at the periods indicated:

	September 30, 2015	June 30, 2015	December 31, 2014
(In thousands)			
Accrual Status:			
Multi-family residential	\$ 2,644	\$ 2,657	\$ 3,034
Commercial real estate	2,349	2,356	2,373
One-to-four family - mixed-use property	2,347	2,358	2,381
One-to-four family - residential	346	349	354
Small business administration	37	39	-
Commercial business and other	2,125	2,167	2,249

Total performing troubled debt restructured \$ 9,848 \$9,926 \$ 10,391

During the nine months ended September 30, 2015, one multi-family TDR loan of \$0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans.

Interest income on loans is recognized on the accrual basis. The accrual of income on loans is discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Additionally, uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. Loans in default 90 days or more, as to their maturity date but not their payments, continue to accrue interest as long as the borrower continues to remit monthly payments.

- 64 -

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table shows non-performing assets, including loans held for sale, at the periods indicated:

(In thousands)	September 30, 2015	June 30, 2015	December 31, 2014
Loans 90 days or more past due and still accruing:			
Multi-family residential	\$ 516	\$-	\$ 676
Commercial real estate	253	416	820
One-to-four family - mixed-use property	1,293	353	405
One-to-four family - residential	13	13	14
Commercial business and other	222	315	386
Total	2,297	1,097	2,301
Non-accrual loans:			
Multi-family residential	4,686	6,352	6,878
Commercial real estate	2,407	2,694	5,689
One-to-four family - mixed-use property	5,446	6,238	6,936
One-to-four family - residential	10,441	11,329	11,244
Small business administration	234	170	-
Commercial business and other	3,089	679	1,143
Total	26,303	27,462	31,890
Total non-performing loans	28,600	28,559	34,191
Other non-performing assets:			
Real estate acquired through foreclosure	4,855	4,255	6,326
Total	4,855	4,255	6,326
Total non-performing assets	\$ 33,455	\$ 32,814	\$ 40,517

Included in loans over 90 days past due and still accruing were nine loans totaling \$2.3 million, eight loans totaling \$1.1 million and 10 loans totaling \$2.3 million at September 30, 2015, June 30, 2015 and December 31, 2014, respectively. These loans are all past their respective maturity dates and are still remitting payments. The Bank is actively working with these borrowers to extend the loans maturity or repay these loans.



Included in non-performing loans was one loan totaling \$0.4 million at September 30, 2015 which was restructured as TDR and not performing in accordance with its restructured terms, compared to two loans totaling \$0.5 million at June 30, 2015 and two loans totaling \$2.4 million at December 31, 2014.

The Bank's non-performing assets totaled \$33.5 million at September 30, 2015, an increase of \$0.6 million from \$32.8 million at June 30, 2015, but a decrease of \$7.1 million from \$40.5 million at December 31, 2014. Total non-performing assets as a percentage of total assets were 0.61% at September 30, 2015 and June 30, 2015, compared to 0.80% at December 31, 2014. The ratio of allowance for loan losses to total non-performing loans was 80.3% at September 30, 2015, compared to 80.8% at June 30, 2015 and 73.4% at December 31, 2014.

During the three months ended September 30, 2015, 12 loans totaling \$4.4 million were added to non-accrual loans, six loans totaling \$1.0 million were returned to performing status, 10 loans totaling \$2.5 million were paid in full, four loans totaling \$1.0 million were sold, and one loan totaling \$0.8 million was transferred to other real estate owned.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table shows our delinquent loans that are less than 90 days past due still accruing interest and considered performing at the periods indicated:

	September 30, 2015		December 31, 2014	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	\$ 1,581	\$ 7,009	\$ 1,729	\$ 7,721
Commercial real estate	90	3,255	1,345	2,171
One-to-four family - mixed-use property	1,048	10,425	1,153	10,408
One-to-four family - residential	448	2,337	2,038	1,751
Co-operative apartments	-	-	-	-
Construction loans	-	-	-	3,000
Small Business Administration	-	46	-	90
Taxi medallion	-	-	-	-
Commercial business and other	2	11	1,585	6
Total delinquent loans	\$ 3,169	\$ 23,083	\$ 7,850	\$ 25,147

**CRITICIZED AND CLASSIFIED ASSETS**

Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are considered “Classified Assets,” as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard or Doubtful. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were \$60.0 million at

September 30, 2015, a decrease of \$16.5 million from \$76.5 million at December 31, 2014.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table sets forth the Bank’s assets designated as Criticized and Classified at September 30, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$4,727	\$ 6,511	\$ -	\$ -	\$11,238
Commercial real estate	1,931	2,884	-	-	4,815
One-to-four family - mixed-use property	4,245	10,167	-	-	14,412
One-to-four family - residential	1,431	12,766	-	-	14,197
Co-operative apartments	-	-	-	-	-
Construction loans	1,000	-	-	-	1,000
Small Business Administration	235	234	-	-	469
Taxi Medallion	-	2,129	-	-	2,129
Commercial business and other	1,215	5,695	-	-	6,910
Total loans	14,784	40,386	-	-	55,170
Other Real Estate Owned	-	4,855	-	-	4,855
Total	\$14,784	\$ 45,241	\$ -	\$ -	\$60,025

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2014:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$6,494	\$ 10,226	\$ -	\$ -	\$16,720
Commercial real estate	5,453	7,100	-	-	12,553
One-to-four family - mixed-use property	5,254	12,499	-	-	17,753
One-to-four family - residential	2,352	13,056	-	-	15,408
Co-operative apartments	623	-	-	-	623
Construction loans	-	-	-	-	-
Small Business Administration	479	-	-	-	479
Commercial business and other	2,841	3,779	-	-	6,620

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Total loans	23,496	46,660	-	-	70,156
Other Real Estate Owned	-	6,326	-	-	6,326
Total	\$23,496	\$ 52,986	\$ -	\$ -	\$76,482

On a quarterly basis all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At September 30, 2015, the current average loan-to-value ratio on our collateral dependent loans reviewed for impairment was 44.6%.

- 67 -

## **PART I – FINANCIAL INFORMATION**

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

#### **Management’s Discussion and Analysis of**

#### **Financial Condition and Results of Operations**

We classify investment securities as Substandard when, based on an internal review, collection of principal is envisioned, but there may be a partial loss of interest or dividends. There were no securities classified as Substandard at September 30, 2015 and December 31, 2014.

#### **ALLOWANCE FOR LOAN LOSSES**

We have established and maintain on our books an allowance for loan losses that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors. The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 have a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the fair value of collateral is generally evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired collateral dependent loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the property’s updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired collateral dependent loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties’ estimated value had declined from when the loan was originated. The Board of Directors reviews and

approves the adequacy of the allowance for loan losses on a quarterly basis.

In assessing the adequacy of the allowance for loan losses, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. During the three months ended September 30, 2015, we incurred total net recoveries of \$0.3 million, compared to net charge-offs of \$0.3 million for the comparable prior year period. Non-performing loans totaled \$28.6 million and \$35.7 million at September 30, 2015 and 2014, respectively. The Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At September 30, 2015, the average loan-to-value ratio for our non-performing loans collateralized by real estate was 44.6%. A benefit for loan losses of \$0.4 million and \$0.6 million was recorded for the three months ended September 30, 2015 and 2014, respectively. Management has concluded, and the Board of Directors has concurred, that at September 30, 2015, the allowance for loan losses was sufficient to absorb losses inherent in our loan portfolio.

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table sets forth the activity in the Company's allowance for loan losses for the periods indicated:

(Dollars in thousands)	For the nine months ended September 30,				
	2015		2014		
Balance at beginning of period	\$	25,096	\$	31,776	
Provision (benefit) for loan losses		(1,620)		(2,829)	
Loans charged-off:					
Multi-family residential		(458)		(1,086)	
Commercial real estate		(32)		(307)	
One-to-four family – mixed-use property		(571)		(305)	
One-to-four family – residential		(244)		(97)	
Small Business Administration		(9)		(49)	
Commercial business and other		(62)		(130)	
Total loans charged-off		(1,376)		(1,974)	
Recoveries:					
Multi-family residential		218		144	
Commercial real estate		168		481	
One-to-four family – mixed-use property		73		331	
One-to-four family – residential		374		269	
Co-operative apartments		-		7	
Small Business Administration		32		76	
Commercial business and other		8		63	
Total recoveries		873		1,371	
Net charge-offs		(503)		(603)	
Balance at end of period	\$	22,973	\$	28,344	
Ratio of net charge-offs during the period to average loans outstanding during the period		0.02	%	0.02	%
Ratio of allowance for loan losses to gross loans at end of period		0.55	%	0.78	%
Ratio of allowance for loan losses to non-performing assets at end of period		68.67	%	68.37	%
Ratio of allowance for loan losses to non-performing					



loans at end of period	80.32	%	79.47	%
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**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For a discussion of the qualitative and quantitative disclosures about market risk, see the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

**ITEM 4. CONTROLS AND PROCEDURES**

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II – OTHER INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in various lawsuits. Management of the Company, after consultation with outside legal counsel, believes that the resolution of these various matters will not result in any material adverse effect on the Company's consolidated financial condition, results of operations and cash flows.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended September 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 to July 31, 2015	-	\$ -	-	1,000,000
August 1 to August 31, 2015	60,000	19.77	60,000	940,000
September 1 to September 30, 2015	40,400	19.44	40,400	899,600
Total	100,400	\$ 19.64	100,400	

During the quarter ended September 30, 2015, the Company repurchased 100,400 shares of the Company's common stock at an average cost of \$19.64 per share. At September 30, 2015, 899,600 shares may still be repurchased under the currently authorized stock repurchase program. Stock will be purchased under the current stock repurchase

program from time to time, in the open market or through private transactions, subject to market conditions. There is no expiration or maximum dollar amount under this authorization.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

- 71 -

**PART II – OTHER INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**ITEM 6. EXHIBITS**

**Exhibit No. Description**

- |         |   |
|---------|---|
| 3.1     | Certificate of Incorporation of Flushing Financial Corporation (1)  |
| 3.2     | Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)  |
| 3.3     | Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6)  |
| 3.4     | Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)  |
| 3.5     | Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)   |
| 3.6     | Amended and Restated By-Laws of Flushing Financial Corporation (7)  |
| 4.1     | Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5)                           |
| 4.2     | Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request. |
| 31.1    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)   |
| 31.2    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)   |
| 32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)  |
| 32.2    | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)  |
| 101.INS | XBRL Instance Document (filed herewith)   |
| 101.SCH | XBRL Taxonomy Extension Schema Document (filed herewith)  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (filed herewith)  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)   |
- (1) Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488.
- (2) Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.
- (3) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
- (4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
- (5) Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.

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- (6) Incorporated by reference to Exhibit filed with Form 10-K for the year ended December 31, 2011.
- (7) Incorporated by reference to Exhibit filed with Form 10-Q for the quarter ended June 30, 2014.

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Flushing Financial Corporation,

Dated: November 9, 2015 By: /s/John R. Buran  
John R. Buran  
President and Chief Executive Officer

Dated: November 9, 2015 By: /s/David Fry  
David Fry  
Senior Executive Vice President, Treasurer and  
Chief Financial Officer

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

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