FLUSHING FINANCIAL CORP
Form 10-Q
November 04, 2016

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, 2016**

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)

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. _X_ 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). _X_ 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 _X_

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 _X_ No

The number of shares of the registrant’s Common Stock outstanding as of October 31, 2016 was 28,618,493.

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(Unaudited)

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(Dollars in thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$47,880	$42,363
Securities held-to-maturity:		
Other securities (none pledged) (fair value of $33,410 and $6,180 at September 30, 2016 and December 31, 2015, respectively)	33,274	6,180
Securities available for sale:		
Mortgage-backed securities (including assets pledged of $133,470 and $496,121 at September 30, 2016 and December 31, 2015, respectively; $2,166 and $2,527 at fair value pursuant to the fair value option at September 30, 2016 and December 31, 2015, respectively)	545,067	668,740
Other securities (including assets pledged of $91,799 and none at September 30, 2016 and December 31, 2015, respectively; $28,551 and $28,205 at fair value pursuant to the fair value option at September 30, 2016 and December 31, 2015, respectively)	365,812	324,657
Loans:		
Multi-family residential	2,171,289	2,055,228
Commercial real estate	1,195,266	1,001,236
One-to-four family mixed-use property	555,691	573,043
One-to-four family residential	183,993	187,838
Co-operative apartments	7,494	8,285
Construction	11,250	7,284
Small Business Administration	14,339	12,194
Taxi medallion	20,536	20,881
Commercial business and other	564,972	506,622
Net unamortized premiums and unearned loan fees	16,447	15,368
Allowance for loan losses	(21,795)	(21,535)
Net loans	4,719,482	4,366,444
Interest and dividends receivable	19,833	18,937
Bank premises and equipment, net	26,000	25,622
Federal Home Loan Bank of New York stock	65,185	56,066
Bank owned life insurance	115,807	115,536
Goodwill	16,127	16,127
Other assets	44,788	63,962
Total assets	$5,999,255	$5,704,634

LIABILITIES		
Due to depositors:		
Non-interest bearing	$320,060	$269,469
Interest-bearing:		
Certificate of deposit accounts	1,384,551	1,403,302
Savings accounts	258,058	261,748
Money market accounts	733,361	472,489
NOW accounts	1,296,475	1,448,695
Total interest-bearing deposits	3,672,445	3,586,234
Mortgagors' escrow deposits	49,276	36,844
Borrowed funds ($27,791 and $29,018 at fair value pursuant to the fair value option at September 30, 2016 and December 31, 2015, respectively)	1,320,515	1,155,676
Securities sold under agreements to repurchase	40,000	116,000
Other liabilities	84,338	67,344
Total liabilities	5,486,634	5,231,567
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
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, 2016 and December 31, 2015; 28,632,796 shares and 28,830,558 shares outstanding at September 30, 2016 and December 31, 2015, respectively)	315	315
Additional paid-in capital	213,488	210,652
Treasury stock, at average cost (2,897,799 shares and 2,700,037 shares at September 30, 2016 and December 31, 2015, respectively)	(53,373)	(48,868)
Retained earnings	351,942	316,530
Accumulated other comprehensive income (loss), net of taxes	249	(5,562)
Total stockholders' equity	512,621	473,067
Total liabilities and stockholders' equity	$5,999,255	$5,704,634

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

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PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended September 30, 2016	2015	For the nine months ended September 30, 2016	2015
Interest and dividend income				
Interest and fees on loans	$49,181	$45,243	$145,152	$132,861
Interest and dividends on securities:				
Interest	6,173	6,508	19,275	18,366
Dividends	121	119	360	355
Other interest income	49	43	191	96
Total interest and dividend income	55,524	51,913	164,978	151,678
Interest expense				
Deposits	8,520	7,701	24,590	22,596
Other interest expense	5,291	4,902	15,653	14,078
Total interest expense	13,811	12,603	40,243	36,674
Net interest income	41,713	39,310	124,735	115,004
Benefit for loan losses	-	(370)	-	(1,620)
Net interest income after benefit for loan losses	41,713	39,680	124,735	116,624
Non-interest income				
Banking services fee income	826	778	2,775	2,560
Net gain on sale of securities	-	103	2,363	167
Net gain on sale of loans	240	306	584	355
Net gain on sale of buildings	-	-	33,814	6,537
Net loss from fair value adjustments	(823)	(1,094)	(2,925)	(921)
Federal Home Loan Bank of New York stock dividends	665	480	1,870	1,455
Gain from life insurance proceeds	47	-	458	-
Bank owned life insurance	707	725	2,096	2,157
Other income	191	399	1,075	1,264
Total non-interest income	1,853	1,697	42,110	13,574
Non-interest expense				
Salaries and employee benefits	14,795	12,648	45,024	40,471
Occupancy and equipment	2,576	2,443	7,298	7,791

Professional services	1,730	1,907	5,907	5,036
FDIC deposit insurance	536	817	2,380	2,377
Data processing	939	1,178	3,229	3,425
Depreciation and amortization	1,169	993	3,263	2,528
Other real estate owned/foreclosure expense	273	110	831	717
Prepayment penalty on borrowings	-	-	2,082	-
Other operating expenses	4,259	3,612	13,214	11,550
Total non-interest expense	26,277	23,708	83,228	73,895
Income before income taxes	17,289	17,669	83,617	56,303
Provision for income taxes				
Federal	5,568	5,375	25,518	16,782
State and local	1,087	1,286	7,469	4,946
Total taxes	6,655	6,661	32,987	21,728
Net income	$10,634	$11,008	$50,630	$34,575
Basic earnings per common share	$0.37	$0.38	$1.75	$1.18
Diluted earnings per common share	$0.37	$0.38	$1.75	$1.18
Dividends per common share	$0.17	$0.16	$0.51	$0.48

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)

(In thousands)	For the three months ended September 30, 2016	2015	For the nine months ended September 30, 2016	2015
Net income	$10,634	$11,008	$50,630	$34,575
Other comprehensive income (loss), net of tax:				
Amortization of actuarial losses, net of taxes of ($82) and ($134) for the three months ended September 30, 2016 and 2015, respectively and of ($247) and ($402) for the nine months ended September 30, 2016 and 2015, respectively.	110	173	329	518
Amortization of prior service credits, net of taxes of $4 and $5 for the three months ended September 30, 2016 and 2015, respectively and of $14 and $15 for the nine months ended September 30, 2016 and 2015, respectively.	(7)	(6)	(20)	(19)
Reclassificaton adjustment for net gains included in income, net of taxes of $45 for the three months ended September 30, 2015 and of $1,013 and $73 for the nine months ended September 30, 2016 and 2015, respectively.	-	(58)	(1,350)	(94)
Net unrealized gains (losses) on securities, net of taxes of $2,177 and ($3,063) for the three months ended September 30, 2016 and 2015, respectively and of ($5,103) and ($2,230) for the nine months ended September 30, 2016 and 2015, respectively.	(2,942)	3,943	6,852	2,798
Total other comprehensive income (loss), net of tax	(2,839)	4,052	5,811	3,203
Comprehensive income	$7,795	$15,060	$56,441	$37,778

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)	For the nine months ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$50,630	$34,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Benefit for loan losses	-	(1,620)
Depreciation and amortization of bank premises and equipment	3,263	2,528
Amortization of premium, net of accretion of discount	6,344	6,804
Net (gain) loss from fair value adjustments	2,925	921
Net gain from sale of loans	(584)	(355)
Net gain from sale of securities	(2,363)	(167)
Net gain from sale of buildings	(33,814)	(6,537)
Income from bank owned life insurance	(2,096)	(2,157)
Gain from life insurance proceeds	(458)	-
Stock-based compensation expense	4,169	4,222
Deferred compensation	(3,140)	(2,768)
Excess tax benefit from stock-based payment arrangements	(470)	(467)
Deferred income tax benefit	(1,228)	(5,024)
Increase in other liabilities	7,680	2,432
Decrease in other assets	6,549	2,065
Net cash provided by operating activities	37,407	34,452
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(4,159)	(9,933)
Net purchases of Federal Home Loan Bank of New York shares	(9,119)	(6,467)
Purchases of securities held-to-maturity	(35,705)	(3,100)
Proceeds from maturities of securities held-to-maturity	8,475	1,390
Purchases of securities available for sale	(59,678)	(294,453)
Proceeds from sales and calls of securities	66,996	163,158
Proceeds from maturities and prepayments of securities	85,829	92,733
Proceeds from bank owned life insurance	2,236	-
Proceeds from sale of buildings	34,332	20,209
Net originations of loans	(210,506)	(163,037)
Purchases of loans	(137,994)	(216,333)
Proceeds from sale of real estate owned	853	2,185
Proceeds from sale of loans	11,499	10,363

Net cash used in investing activities	(246,941)	(403,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	50,591	1,362
Net increase in interest-bearing deposits	85,616	207,653
Net increase in mortgagors' escrow deposits	12,432	9,021
Net proceeds from short-term borrowed funds	150,000	45,000
Proceeds from long-term borrowings	200,000	225,000
Repayment of long-term borrowings	(260,301)	(90,000)
Purchases of treasury stock	(9,102)	(15,604)
Excess tax benefit from stock-based payment arrangements	470	467
Proceeds from issuance of common stock upon exercise of stock options	132	142
Cash dividends paid	(14,787)	(13,999)
Net cash provided by financing activities	215,051	369,042
Net increase in cash and cash equivalents	5,517	209
Cash and cash equivalents, beginning of period	42,363	34,265
Cash and cash equivalents, end of period	$47,880	$34,474
SUPPLEMENTAL CASHFLOW DISCLOSURE		
Interest paid	$39,792	$35,838
Income taxes paid	28,610	26,518
Taxes paid if excess tax benefits were not tax deductible	29,080	26,985
Non-cash activities:		
Securities purchased not yet settled	2,000	-
Securities transferred from available for sale to held-to-maturity	-	4,510
Loans transferred to Other Real Estate Owned	486	1,588
Loans provided for the sale of Other Real Estate Owned	-	280
Loans held for investment transferred to loans held for sale	-	300

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

For the nine months ended September 30, 2016 and 2015

(Unaudited)

(Dollars in thousands, except per share data)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$473,067	$315	$210,652	$316,530	$(48,868)	$(5,562)
Net Income	50,630	-	-	50,630	-	-
Award of common shares released from Employee Benefit Trust (138,519 shares)	1,984	-	1,984	-	-	-
Vesting of restricted stock unit awards (245,311 shares)	-	-	(4,049)	(397)	4,446	-
Exercise of stock options (41,670 shares)	132	-	15	(34)	151	-
Stock-based compensation expense	4,416	-	4,416	-	-	-
Stock-based income tax benefit	470	-	470	-	-	-
Purchase of treasury shares (378,695 shares)	(7,492)	-	-	-	(7,492)	-
Repurchase of shares to satisfy tax obligation (77,994 shares)	(1,610)	-	-	-	(1,610)	-
Dividends on common stock ($0.51 per share)	(14,787)	-	-	(14,787)	-	-
Other comprehensive income	5,811	-	-	-	-	5,811
Balance at September 30, 2016	$512,621	$315	$213,488	$351,942	$(53,373)	$249
Balance at December 31, 2014	$456,247	$315	$206,437	$289,623	$(37,221)	$(2,907)
Net Income	34,575	-	-	34,575	-	-
Award of common shares released from Employee Benefit Trust (143,809 shares)	2,031	-	2,031	-	-	-
Vesting of restricted stock unit awards (204,310 shares)	-	-	(3,076)	(504)	3,580	-
Exercise of stock options (45,125 shares)	142	-	(51)	(179)	372	-
Stock-based compensation expense	4,128	-	4,128	-	-	-
Stock-based income tax benefit	467	-	467	-	-	-
Purchase of treasury shares (735,599 shares)	(14,351)	-	-	-	(14,351)	-
Repurchase of shares to satisfy tax obligation (65,637 shares)	(1,253)	-	-	-	(1,253)	-
Dividends on common stock ($0.48 per share)	(13,999)	-	-	(13,999)	-	-
Other comprehensive income	3,203	-	-	-	-	3,203
Balance at September 30, 2015	$471,190	$315	$209,936	$309,516	$(48,873)	$296

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, 2015.

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 ("ALL"), the evaluation of goodwill for impairment, the review of the need for a valuation allowance of the Company's deferred tax assets, the fair value of financial instruments including the evaluation of other-than-temporary impairment ("OTTI") on securities. 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 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 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 September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net income, as reported	$10,634	$11,008	$50,630	$34,575
Divided by:				
Weighted average common shares outstanding	28,861	28,927	28,993	29,188
Weighted average common stock equivalents	14	19	13	21
Total weighted average common shares outstanding and common stock equivalents	28,875	28,946	29,006	29,209
Basic earnings per common share	$0.37	$0.38	$1.75	$1.18
Diluted earnings per common share [(1)]	$0.37	$0.38	$1.75	$1.18
Dividend payout ratio	45.9 %	42.1 %	29.1 %	40.7 %

(1) For the three and nine months ended September 30, 2016 and 2015, 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, 2016 and December 31, 2015. Securities available for sale are recorded at fair value. Securities held-to-maturity are recorded at amortized cost.

The following table summarizes the Company’s portfolio of securities held-to-maturity at September 30, 2016:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Securites held-to-maturity:				
Municipals	$33,274	$33,410	$ 136	$ -
Total	$33,274	$33,410	$ 136	$ -

The following table summarizes the Company’s portfolio of securities held-to-maturity at December 31, 2015:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Securites held-to-maturity:				
Municipals	$6,180	$6,180	$ -	$ -
Total	$6,180	$6,180	$ -	$ -

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, 2016:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Corporate	$110,000	$104,011	$ 191	$ 6,180
Municipals	125,667	130,380	4,713	-
Mutual funds	21,658	21,658	-	-
Collateralized loan obligations	101,660	102,572	920	8
Other	7,193	7,191	-	2
Total other securities	366,178	365,812	5,824	6,190
REMIC and CMO	383,912	389,426	6,144	630
GNMA	7,520	7,700	180	-
FNMA	129,791	132,831	3,085	45
FHLMC	14,802	15,110	308	-
Total mortgage-backed securities	536,025	545,067	9,717	675
Total securities available for sale	$902,203	$910,879	$ 15,541	$ 6,865

Mortgage-backed securities shown in the table above include one private issue collateralized mortgage obligation ("CMO") that is collateralized by commercial real estate mortgages with an amortized cost and market value of $0.4 million at September 30, 2016.

The following table summarizes the Company's portfolio of securities available for sale at December 31, 2015:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Corporate	$115,976	$111,674	$ 134	$ 4,436
Municipals	127,696	131,583	3,887	-
Mutual funds	21,290	21,290	-	-

Collateralized loan obligations	53,225	52,898	-	327
Other	7,214	7,212	-	2
Total other securities	325,401	324,657	4,021	4,765
REMIC and CMO	469,987	469,936	3,096	3,147
GNMA	11,635	11,798	302	139
FNMA	170,327	170,057	1,492	1,762
FHLMC	16,961	16,949	87	99
Total mortgage-backed securities	668,910	668,740	4,977	5,147
Total securities available for sale	$994,311	$993,397	$ 8,998	$ 9,912

Mortgage-backed securities shown in the table above include one private issue CMO that is collateralized by commercial real estate mortgages with an amortized cost and market value of $7.7 million at December 31, 2015.

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 held-to-maturity at September 30, 2016, by contractual maturity. 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.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$11,370	$11,370
Due after one year through five years	40	40
Due after ten years	21,864	22,000
Total securities held-to-maturity	$33,274	$33,410

The amortized cost and fair value of the Company's securities, classified as available for sale at September 30, 2016, by contractual maturity, are shown below. 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.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$-	$-
Due after one year through five years	1,795	1,821
Due after five years through ten years	118,691	117,707
Due after ten years	224,034	224,626
Total other securities	344,520	344,154
Mutual funds	21,658	21,658
Mortgage-backed securities	536,025	545,067
Total securities available for sale	$902,203	$910,879

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 have been in a continuous unrealized loss position, at September 30, 2016:

		Total		Less than 12 months		12 months or more	
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Corporate	13	$93,820	$ 6,180	$19,294	$ 706	$74,526	$ 5,474
Collateralized loan obligations	1	7,474	8	-	-	7,474	8
Other	1	299	2	-	-	299	2
Total other securities	15	101,593	6,190	19,294	706	82,299	5,484
REMIC and CMO	11	55,603	630	19,707	131	35,896	499
FNMA	1	6,694	45	-	-	6,694	45
Total mortgage-backed securities	12	62,297	675	19,707	131	42,590	544
Total securities available for sale	27	$163,890	$ 6,865	$39,001	$ 837	$124,889	$ 6,028

PART I – FINANCIAL INFORMATION

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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 have been in a continuous unrealized loss position, at December 31, 2015:

		Total		Less than 12 months		12 months or more	
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Corporate	12	$85,563	$ 4,436	$76,218	$ 3,782	$9,345	$ 654
Collateralized loan obligations	7	52,898	327	52,898	327	-	-
Other	1	298	2	-	-	298	2
Total other securities	20	138,759	4,765	129,116	4,109	9,643	656
REMIC and CMO	33	238,132	3,147	182,010	1,642	56,122	1,505
GNMA	1	6,977	139	6,977	139	-	-
FNMA	20	102,225	1,762	75,769	1,043	26,456	719
FHLMC	3	14,715	99	14,715	99	-	-
Total mortgage-backed securities	57	362,049	5,147	279,471	2,923	82,578	2,224
Total securities available for sale	77	$500,808	$ 9,912	$408,587	$ 7,032	$92,221	$ 2,880

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 accumulated other comprehensive income ("AOCI") within Stockholders' Equity.

The Company reviewed each investment that had an unrealized loss at September 30, 2016 and December 31, 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.

The unrealized losses in total securities available for sale at September 30, 2016 and December 31, 2015 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, 2016 and December 31, 2015.

The Company sold available for sale securities with book values at the time of sale totaling $64.6 million and $163.0 million during the nine months ended September 30, 2016 and 2015, respectively. The Company did not sell any available for sale securities during the three months ended September 30, 2016. The Company sold available for sale securities with book values at the time of sale totaling $138.0 million during the three months ended September 30, 2015.

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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 September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Gross gains from the sale of securities	$-	$2,666	$2,370	$2,899
Gross losses from the sale of securities	-	(2,563)	(7)	(2,732)
Net gains from the sale of securities	$-	$103	$2,363	$167

5. Loans

Loans are reported at their outstanding principal 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. Payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. 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.

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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is established through charges to earnings in the form of 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. 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 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.

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 Company's Board of Directors reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

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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. Prior to a loan becoming 90 days delinquent an updated appraisal is ordered and/or an internal evaluation is prepared. 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, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm's length transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. In addition, taxi medallion loans with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the ALL in the amount of the excess of the loan-to-value over the loan's principal balance. 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. All non-accrual loans are considered impaired. Interest income on impaired loans is recorded on the cash basis.

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.

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, 2016, we utilized recent third party appraisals of the collateral to measure impairment for $45.3 million, or 88.2%, of collateral dependent impaired loans, and used internal evaluations of the property's value for $6.1 million, or 11.8%, 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. 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.

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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, 2016, 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:

	For the nine months ended September 30, 2016			For the nine months ended September 30, 2015		
(Dollars in thousands)	Number	Balance	Modification description	Number	Balance	Modification description
One-to-four family - residential	2	$263	Received a below market interest rate and the loan amortizations were extended.	-	$ -	
Commercial business and other	2	739	One received an amortization extension and one received a below market interest rate and an amortization extension.	-	-	
Small Business Administration	-	-		1	41	Received a below market interest rate and the loan amortization was extended.
Total	4	$1,002		1	$ 41	

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

The Company did not modify and classify any loans as TDR during the three months ended September 30, 2016 or 2015.

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

	September 30, 2016		December 31, 2015	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	9	$ 2,586	9	$ 2,626
Commercial real estate	2	2,074	3	2,371
One-to-four family - mixed-use property	5	1,809	6	2,052
One-to-four family - residential	3	596	1	343
Small business administration	-	-	1	34
Commercial business and other	3	1,139	4	2,083
Total performing troubled debt restructured	22	$ 8,204	24	$ 9,509

During the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, there were no TDR loans transferred to non-performing status. During the nine months ended September 30, 2015, one TDR loan of $0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans.

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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:

	September 30, 2016		December 31, 2015	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	1	$ 392	1	$ 391
Total troubled debt restructurings that subsequently defaulted	1	$ 392	1	$ 391

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

(In thousands)	September 30, 2016	December 31, 2015
Loans ninety days or more past due and still accruing:		
Multi-family residential	$ -	$ 233
Commercial real estate	1,183	1,183
One-to-four family - mixed-use property	470	611
One-to-four family - residential	-	13
Construction	-	1,000
Commercial Business and other	-	220
Total	1,653	3,260
Non-accrual mortgage loans:		
Multi-family residential	1,649	3,561
Commercial real estate	1,157	2,398
One-to-four family - mixed-use property	4,534	5,952
One-to-four family - residential	8,340	10,120
Total	15,680	22,031

Non-accrual non-mortgage loans:		
Small business administration	2,132	218
Taxi medallion	3,971	-
Commercial business and other	99	568
Total	6,202	786
Total non-accrual loans	21,882	22,817
Total non-accrual loans and loans ninety days or more past due and still accruing	$ 23,535	$ 26,077

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	$468	$627	$1,405	$1,879
Less: Interest income included in the results of operations	99	153	391	540
Total foregone interest	$369	$474	$1,014	$1,339

The following tables show an age analysis of our recorded investment in loans, including loans past maturity, at the periods indicated:

	September 30, 2016					
(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	$5,441	$917	$1,649	$8,007	$2,163,282	$2,171,289
Commercial real estate	3,052	377	2,340	5,769	1,189,497	1,195,266
One-to-four family - mixed-use property	4,396	746	5,004	10,146	545,545	555,691
One-to-four family - residential	1,081	427	8,146	9,654	174,339	183,993
Co-operative apartments	-	-	-	-	7,494	7,494
Construction loans	-	-	-	-	11,250	11,250
Small Business Administration	28	-	2,044	2,072	12,267	14,339
Taxi medallion	-	1,408	2,563	3,971	16,565	20,536
Commercial business and other	247	4	1	252	564,720	564,972
Total	$14,245	$3,879	$21,747	$39,871	$4,684,959	$4,724,830

(In thousands)	December 31, 2015 30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$9,421	$804	$3,794	$14,019	$2,041,209	$2,055,228
Commercial real estate	2,820	153	3,580	6,553	994,683	1,001,236
One-to-four family - mixed-use property	8,630	1,258	6,563	16,451	556,592	573,043
One-to-four family - residential	4,261	154	10,134	14,549	173,289	187,838
Co-operative apartments	-	-	-	-	8,285	8,285
Construction loans	-	-	1,000	1,000	6,284	7,284
Small Business Administration	42	-	218	260	11,934	12,194
Taxi medallion	-	-	-	-	20,881	20,881
Commercial business and other	-	2	228	230	506,392	506,622
Total	$25,174	$2,371	$25,517	$53,062	$4,319,549	$4,372,611

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The following tables show the activity in the allowance for loan losses for the three month periods indicated:

September 30, 2016

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	$6,177	$4,445	$3,326	$1,044	$75	$574	$1,042	$4,669	$846	$22,198
Charge-off's	(90)	-	(71)	-	-	(361)	-	(19)	-	(541)
Recoveries	11	11	47	-	-	44	-	25	-	138
Provision (Benefit)	(103)	60	(234)	(27)	15	151	1,290	(477)	(675)	-
Ending balance	$5,995	$4,516	$3,068	$1,017	$90	$408	$2,332	$4,198	$171	$21,795

September 30, 2015

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	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-off's	(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	