FLUSHING FINANCIAL CORP
Form 10-Q
May 10, 2012

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 March 31, 2012

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.)

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(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 April 30, 2012 was 30,920,676.

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(Unaudited)

Item 1. Financial Statements

(Dollars in thousands, except per share data)	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 35,390	$ 55,721
Securities available for sale:		
Mortgage-backed securities ($34,629 and $37,787 at fair value pursuant to the fair value option at March 31, 2012 and December 31, 2011, respectively)	733,873	747,288
Other securities ($31,247 and $30,942 at fair value pursuant to the fair value option at March 31, 2012 and December 31, 2011 respectively)	163,760	65,242
Loans:		
Multi-family residential	1,418,254	1,391,221
Commercial real estate	557,688	580,783
One-to-four family mixed-use property	681,389	693,932
One-to-four family residential	214,163	220,431
Co-operative apartments	5,409	5,505
Construction	42,655	47,140
Small Business Administration	13,665	14,039
Taxi medallion	49,391	54,328
Commercial business and other	231,674	206,614
Net unamortized premiums and unearned loan fees	14,410	14,888
Allowance for loan losses	(30,618)	(30,344)
Net loans	3,198,080	3,198,537
Interest and dividends receivable	18,434	17,965
Bank premises and equipment, net	24,053	24,417
Federal Home Loan Bank of New York stock	32,221	30,245
Bank owned life insurance	84,150	83,454
Goodwill	16,127	16,127
Core deposit intangible	820	937
Other assets	51,049	48,016
Total assets	$ 4,357,957	$ 4,287,949
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 131,428	$ 118,507
Interest-bearing:		
Certificate of deposit accounts	1,461,651	1,529,110
Savings accounts	331,242	349,630
Money market accounts	193,569	200,183
NOW accounts	1,011,001	919,029
Total interest-bearing deposits	2,997,463	2,997,952
Mortgagors' escrow deposits	41,243	29,786
Borrowed funds ($26,136 and $26,311 at fair value pursuant to the fair value option at March 31, 2012 and December 31, 2011, respectively)	543,861	499,839

Securities sold under agreements to repurchase	185,300	185,300
Other liabilities	35,706	39,654
Total liabilities	3,935,001	3,871,038
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 March 31, 2012 and December 31, 2011; 30,919,551 shares and 30,904,177 shares outstanding at March 31, 2012 and December 31, 2011, respectively)	315	315
Additional paid-in capital	197,325	195,628
Treasury stock, at average cost (611,044 shares and 626,418 shares at March 31, 2012 and December 31, 2011, respectively)	(7,410)	(7,355)
Retained earnings	226,553	223,510
Accumulated other comprehensive income, net of taxes	6,173	4,813
Total stockholders' equity	422,956	416,911
Total liabilities and stockholders' equity	$ 4,357,957	$ 4,287,949

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)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2012	2011
Interest and dividend income		
Interest and fees on loans	$ 46,560	$ 48,690
Interest and dividends on securities:		
Interest	7,631	8,107
Dividends	207	202
Other interest income	17	27
Total interest and dividend income	54,415	57,026
Interest expense		
Deposits	10,910	12,334
Other interest expense	6,160	7,537
Total interest expense	17,070	19,871
Net interest income	37,345	37,155
Provision for loan losses	6,000	5,000
Net interest income after provision for loan losses	31,345	32,155
Non-interest income		
Other-than-temporary impairment ("OTTI") charge	-	(3,616)
Less: Non-credit portion of OTTI charge recorded in Other Comprehensive Income, before taxes	-	2,690
Net OTTI charge recognized in earnings	-	(926)
Loan fee income	466	434
Banking services fee income	455	461
Net loss from fair value adjustments	(448)	(655)
Federal Home Loan Bank of New York stock dividends	385	500
Bank owned life insurance	696	667
Other income	324	390
Total non-interest income	1,878	871
Non-interest expense		
Salaries and employee benefits	11,041	10,027
Occupancy and equipment	1,930	1,867
Professional services	1,722	1,599
FDIC deposit insurance	1,017	1,428
Data processing	976	1,005
Depreciation and amortization	834	766
Other real estate owned/foreclosure expense	712	337
Other operating expenses	3,304	2,986
Total non-interest expense	21,536	20,015

Income before income taxes		11,687		13,011
Provision for income taxes				
Federal		3,624		3,912
State and local		934		1,146
Total taxes		4,558		5,058
Net income	$	7,129	$	7,953
Basic earnings per common share	$	0.23	$	0.26
Diluted earnings per common share	$	0.23	$	0.26
Dividends per common share	$	0.13	$	0.13

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 March 31, 2012	2011
Comprehensive Income		
Net income	$ 7,129	$ 7,953
Amortization of actuarial losses	149	77
Amortization of prior service credits	(6)	(6)
OTTI charges included in income	-	518
Unrealized gains (losses) on securities, net	1,217	(3,490)
Comprehensive income	$ 8,489	$ 5,052

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 three months ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,129	$ 7,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,000	5,000
Depreciation and amortization of bank premises and equipment	834	766
Amortization of premium, net of accretion of discount	1,561	1,423
Net loss from fair value adjustments	448	655
OTTI charge recognized in earnings	-	926
Income from bank owned life insurance	(696)	(667)
Stock-based compensation expense	1,418	1,167
Deferred compensation	(306)	103
Amortization of core deposit intangibles	117	117
Excess tax benefit from stock-based payment arrangements	(106)	(80)
Deferred income tax provision	713	125
Decrease in prepaid FDIC assesment	946	1,337
Decrease in other liabilities	(1,676)	(3,562)
Decrease (Increase) in other assets	540	(2,408)
Net cash provided by operating activities	16,922	12,855
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(470)	(754)
Net (purchase) redemptions of Federal Home Loan Bank of New York shares	(1,976)	1,683
Purchases of securities available for sale	(122,512)	(34,657)
Proceeds from maturities and prepayments of securities available for sale	39,035	38,108
Net (originations) and repayment of loans	(19,871)	5,396
Purchases of loans	(3,456)	(12,555)
Proceeds from sale of real estate owned	624	154
Proceeds from sale of delinquent loans	9,091	3,158
Net cash (used in) provided by investing activities	(99,535)	533
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	12,921	8,374
Net (decrease) increase in interest-bearing deposits	(743)	19,648
Net increase in mortgagors' escrow deposits	11,457	12,512
Net proceeds from short-term borrowed funds	58,500	-
Proceeds from long-term borrowings	47,414	-
Repayment of long-term borrowings	(62,000)	(47,423)
Purchases of treasury stock	(1,652)	(209)
Excess tax benefit from stock-based payment arrangements	106	80
Proceeds from issuance of common stock upon exercise of stock options	244	525
Cash dividends paid	(3,965)	(3,995)

Net cash provided by (used in) financing activities	62,282	(10,488)
Net (decrease) increase in cash and cash equivalents	(20,331)	2,900
Cash and cash equivalents, beginning of period	55,721	47,789
Cash and cash equivalents, end of period	$ 35,390	$ 50,689
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 16,995	$ 19,743
Income taxes paid	5,218	2,366
Taxes paid if excess tax benefits were not tax deductible	5,324	2,446
Non-cash activities:		
Loans transferred to real estate owned	1,293	980
Loans provided for the sale of real estate owned	221	244

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)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2012	2011
Common Stock		
Balance, beginning of period	$ 315	$ 313
Issuance upon exercise of stock options (26,907 common shares for the three months ended March 31, 2011)	-	-
Shares issued upon vesting of restricted stock unit awards (67,886 commons shares for the three months ended March 31, 2011)	-	1
Balance, end of period	$ 315	$ 314
Additional Paid-In Capital		
Balance, beginning of period	$ 195,628	$ 189,348
Award of common shares released from Employee Benefit Trust (146,735 and 131,799 common shares for the three months ended March 31, 2012 and 2011, respectively)	1,363	1,429
Shares issued upon vesting of restricted stock unit awards (85,163 and 67,886 common shares for the three months ended March 31, 2012 and 2011, respectively)	151	724
Issuance upon exercise of stock options (56,850 and 41,825 common shares for the three months ended March 31, 2012 and 2011, respectively)	73	348
Stock-based compensation activity, net	4	405
Stock-based income tax benefit	106	80
Balance, end of period	$ 197,325	$ 192,334
Treasury Stock		
Balance, beginning of period	$ (7,355)	$ -
Purchases of outstanding shares (97,200 common shares for the three months ended March 31, 2012)	(1,282)	-
Shares issued upon vesting of restricted stock unit awards (113,993 common shares for the three months ended March 31, 2012)	1,343	-
Issuance upon exercise of stock options (67,330 and 14,378 common shares for the three months ended March 31, 2012 and 2011, respectively)	802	209
Purchases of shares to fund options exercised (40,866 common shares for the three months ended March 31, 2012)	(548)	-
Repurchase of shares to satisfy tax obligations (27,883 and 14,378 common shares for the three months ended March 31, 2012 and 2011, respectively)	(370)	(209)
Balance, end of period	$ (7,410)	$ -
Retained Earnings		
Balance, beginning of period	$ 223,510	$ 204,128
Net income	7,129	7,953
Cash dividends declared and paid on common shares ($0.13 per common share for the three months ended March 31, 2012 and 2011)	(3,965)	(3,995)
Issuance upon exercise of stock options (10,480 and 41,825 common shares for the three months ended March 31, 2012 and 2011, respectively)	(24)	(32)
Shares issued upon vesting of restricted stock unit awards (28,830 common shares for the three months ended March 31, 2012)	(97)	-

Balance, end of period	$ 226,553	$ 208,054
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ 4,813	$ (3,744)
Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately ($962) and $2,756 for the three months ended March 31, 2012 and 2011, respectively	1,217	(3,490)
Amortization of actuarial losses, net of taxes of approximately ($117) and ($61) for the three months ended March 31, 2012 and 2011, respectively	149	77
Amortization of prior service credits, net of taxes of approximately $5 for the three months ended March 31, 2012 and 2011	(6)	(6)
OTTI charges included in income, net of taxes of approximately ($408) for the three months ended March 31, 2011	-	518
Balance, end of period	$ 6,173	$ (6,645)
Total Stockholders' Equity	$ 422,956	$ 394,057

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") is the operation of its wholly-owned subsidiary, Flushing Savings Bank, FSB (the "Savings Bank"). The Holding Company and its direct and indirect wholly-owned subsidiaries, the Savings Bank, Flushing Commercial Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc., are collectively herein referred to as the "Company." The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q ("Quarterly Report") include the collective results of the Company on a consolidated basis.

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, 2011.

When necessary, certain reclassifications have been made to the prior-period consolidated financial statements to conform to the current-period presentation.

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, the evaluation of goodwill for impairment, the evaluation of the need for a valuation allowance of the Company's deferred tax assets and the evaluation of other-than-temporary impairment ("OTTI") on securities. 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

Earnings per share are computed in accordance with Accounting Standards Codification ("ASC") Topic 260 "Earnings Per Share," which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and as such should be included in the calculation of 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. 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 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.

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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 March 31, 2012	2011
	(In thousands, except per share data)	
Net income, as reported	$ 7,129	$ 7,953
Divided by:		
Weighted average common shares outstanding	30,396	30,620
Weighted average common stock equivalents	24	66
Total weighted average common shares outstanding and common stock equivalents	30,420	30,686
Basic earnings per common share	$ 0.23	$ 0.26
Diluted earnings per common share (1)	$ 0.23	$ 0.26
Dividend payout ratio	56.5 %	50.0 %

(1) For the three months ended March 31, 2012, options to purchase 720,340 shares at an average exercise price of $16.71 were not included in the computation of diluted earnings per common share as they were anti-dilutive. For the three months ended March 31, 2011, options to purchase 560,550 shares at an average exercise price of $17.62 were not included in the computation of diluted earnings per common share as they were anti-dilutive.

4. Debt and Equity Securities

The Company's investments 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 or securities held-to-maturity during the three month periods ended March 31, 2012 and 2011. Securities available for sale are recorded at fair value.

The following table summarizes the Company's portfolio of securities available for sale at March 31, 2012:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
U.S. government agencies	$ 21,819	$21,517	$ 44	$ 346
Corporate	61,810	63,143	1,333	-

Municipals	40,324	39,648	-	676
Mutual funds	21,450	21,450	-	-
Other	22,296	18,002	15	4,309
Total other securities	167,699	163,760	1,392	5,331
REMIC and CMO	453,662	467,988	22,556	8,230
GNMA	57,869	62,870	5,001	-
FNMA	175,243	182,078	6,871	36
FHLMC	20,181	20,937	756	-
Total mortgage-backed securities	706,955	733,873	35,184	8,266
Total securities available for sale	$ 874,654	$ 897,633	$ 36,576	$ 13,597

Mortgage-backed securities shown in the table above include two private issue collateralized mortgage obligations ("CMO") that are collateralized by commercial real estate mortgages with amortized cost and market values totaling $18.1 million and $18.5 million, respectively, at March 31, 2012. The remaining private issue mortgage-backed securities are backed by one-to-four family residential mortgage loans.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

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 have been in a continuous unrealized loss position, at March 31, 2012:

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. government agencies	$19,651	$ 346	$19,651	$ 346	$-	$ -
Municipals	33,354	676	33,354	676	-	-
Other	5,253	4,309	-	-	5,253	4,309
Total other securities	58,258	5,331	53,005	1,022	5,253	4,309
REMIC and CMO	40,607	8,230	13,525	254	27,082	7,976
FNMA	10,444	36	10,444	36	-	-
Total mortgage-backed securities	51,051	8,266	23,969	290	27,082	7,976
Total securities available for sale	$109,309	$ 13,597	$76,974	$ 1,312	$32,335	$ 12,285

Other-than-temporary impairment ("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. Additional disclosures regarding the calculation of credit losses as well as factors considered by the investor in reaching a conclusion that an investment is not other-than-temporarily impaired are required.

The Company reviewed each investment that had an unrealized loss at March 31, 2012. 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.

The Company evaluates its pooled trust preferred securities, included in the table above in the row labeled "Other", using an impairment model through an independent third party, which includes evaluating the financial condition of each counterparty. For single issuer trust preferred securities, the Company evaluates the issuer's financial condition. The Company evaluates its mortgage-backed securities by reviewing the characteristics of the securities, including delinquency and foreclosure levels, projected losses at various loss severity levels and credit enhancement and coverage. In addition, private issue CMOs are evaluated using an impairment model through an independent third party. When an OTTI is identified, the portion of the impairment that is credit related is determined by management using the following methods: (1) for trust preferred securities, the credit related impairment is determined by using a discounted cash flow model from an independent third party, with the difference between the present value of the projected cash flows and the amortized cost basis of the security recorded as a credit related loss against earnings; (2)

for mortgage-backed securities, credit related impairment is determined for each security by estimating losses based on a set of assumptions, which includes delinquency and foreclosure levels, projected losses at various loss severity levels, credit enhancement and coverage; and (3) for private issue CMOs, through an impairment model from an independent third party and then recording those estimated losses as a credit related loss against earnings.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

U.S. Government Agencies:
The unrealized losses in U.S. Government Agencies at March 31, 2012, consist of losses on two U.S. Government 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 March 31, 2012.

Municipals:
The unrealized losses in Municipal securities at March 31, 2012, consist of losses on 12 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 March 31, 2012.

Other Securities:
The unrealized losses in Other Securities at March 31, 2012, consist of losses on one single issuer trust preferred security and two pooled trust preferred securities. The unrealized losses on such securities were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. These securities are currently rated below investment grade. The pooled trust preferred securities do not have collateral that is subordinate to the classes the Company owns. The Company's management evaluates these securities using an impairment model, through an independent third party, that is applied to debt securities. In estimating other-than-temporary impairment losses, management considers: (1) the length of time and the extent to which the fair value has been less than amortized cost; (2) the current interest rate environment; (3) the financial condition and near-term prospects of the issuer, if applicable; and (4) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, management reviews the financial condition of each individual issuer within the pooled trust preferred securities. All of the issuers of the underlying collateral of the pooled trust preferred securities we reviewed are banks.
For each bank, our review included the following performance items:

§ Ratio of tangible equity to assets
§ Tier 1 Risk Weighted Capital
§ Net interest margin
§ Efficiency ratio for most recent two quarters
§ Return on average assets for most recent two quarters

§

Texas Ratio (ratio of non-performing assets plus assets past due over 90 days divided by tangible equity plus the reserve for loan losses)

§ Credit ratings (where applicable)

§ Capital issuances within the past year (where applicable)

§ Ability to complete Federal Deposit Insurance Corporation ("FDIC") assisted acquisitions (where applicable)

Based on the review of the above factors, we concluded that:

§ All of the performing issuers in our pools are well capitalized banks and do not appear likely to be closed by their regulators.

§ All of the performing issuers in our pools will continue as a going concern and will not default on their securities.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

In order to estimate potential future defaults and deferrals, we segregated the performing underlying issuers by their Texas Ratio. We then reviewed performing issuers with Texas Ratios in excess of 50%. The Texas Ratio is a key indicator of the health of the institution and the likelihood of failure. This ratio compares the problem assets of the institution to the institution's available capital and reserves to absorb losses that are likely to occur in these assets. There was one issuer with a Texas Ratio in excess of 50% for which we concluded there would not be a default, primarily due to its current operating results and demonstrated ability to raise additional capital.

There were no remaining performing issuers in our pooled trust preferred securities which had a Texas Ratio in excess of 85.00%. For the remaining issuers with a Texas Ratio between 50.00% and 84.99%, we estimated 25% of the related cash flows of the issuer would not be realized. We concluded that issuers with a Texas Ratio below 50.00% are considered healthy and there was a minimal risk of default. We assigned a zero default rate to these issuers. Our analysis also assumed that issuers currently deferring would default with no recovery and issuers that have defaulted will have no recovery.

We had an independent third party prepare a discounted cash flow analysis for each of these pooled trust preferred securities based on the assumptions discussed above. Other significant assumptions were: (1) no issuers will prepay; (2) senior classes will not call the debt on their portions; and (3) use of the forward London Interbank Offered Rate ("LIBOR") curve. The cash flows were discounted at the effective rate for each security. For each issuer that we assumed a 25% shortfall in the cash flows, the cash flow analysis eliminates 25% of the cash flow for each issuer effective immediately.

One of the pooled trust preferred securities is over 90 days past due and the Company has stopped accruing interest. The remaining pooled trust preferred security as well as the single issuer trust preferred security both are performing according to their terms. The Company also owns a pooled trust preferred security that is carried under the fair value option, where the unrealized losses are included in the Consolidated Statements of Income – Net gain (loss) from fair value adjustments. This security is over 90 days past due and the Company has stopped accruing interest.

It is not anticipated at this time that the one single issuer trust preferred security and the two pooled trust preferred 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; except for the pooled trust preferred securities for which the Company has stopped accruing interest as discussed above and, in the opinion of management based on the review performed at March 31, 2012, 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 the one single issuer trust preferred security and the two pooled trust preferred securities to be other-than-temporarily impaired at March 31, 2012.

At March 31, 2012, the Company held six trust preferred issues which had a current credit rating of at least one rating below investment grade. Two of those issues are carried under the fair value option and therefore, changes in fair value are included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments.

The following table details the remaining four trust preferred issues that were evaluated to determine if they were other-than-temporarily impaired at March 31, 2012. The class the Company owns in pooled trust preferred securities does not have any excess subordination.

Issuer Type	Class	Performing Banks	Amortized Cost	Fair Value	Cumulative Credit Related OTTI	Deferrals/Defaults (1) Actual as a Percentage of Original Security	Deferrals/Defaults (1) Expected Percentage of Performing Collateral	Current Lowest Rating
			(Dollars in thousands)					
Single issuer	n/a	1	$300	$ 268	$ -	None	None	BB -
Single issuer	n/a	1	500	515	-	None	None	B +
Pooled issuer	B1	19	5,617	2,960	2,196	28.2 %	0.9 %	C
Pooled issuer	C1	19	3,645	2,025	1,542	25.6 %	0.0 %	C
Total			$10,062	$ 5,768	$ 3,738			

(1) Represents deferrals/defaults as a percentage of the original security and expected deferrals/defaults as a percentage of performing issuers.

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REMIC and CMO:
The unrealized losses in Real Estate Mortgage Investment Conduit ("REMIC") and CMO securities at March 31, 2012 consist of three issues from the Federal Home Loan Mortgage Corporation ("FHLMC"), one issue from the Federal National Mortgage Association ("FNMA"), one issue from Government National Mortgage Association ("GNMA") and seven private issues.

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 March 31, 2012.

The unrealized losses at March 31, 2012 on REMIC and CMO securities issued by private issuers were caused by movements in interest rates, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. Each of these securities has some level of credit enhancements and none are collateralized by sub-prime loans. Currently, three of these securities are performing according to their terms, with four of these securities remitting less than the full principal amount due. The principal loss for these four securities totaled $0.4 million for the three months ended March 31, 2012. These losses were anticipated in the cumulative credit related OTTI charges recorded for these four securities.

Credit related impairment for mortgage-backed securities are determined for each security by estimating losses based on the following set of assumptions: (1) delinquency and foreclosure levels; (2) projected losses at various loss severity levels; and (3) credit enhancement and coverage. Based on these reviews, an OTTI charge was not recorded during the three months ended March 31, 2012.

It is not anticipated at this time that the seven private issue CMOs would be settled at a price that is less than the current amortized cost of the Company's investment. 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 March 31, 2012.

At March 31, 2012, the Company held 16 private issue CMOs which had a current credit rating of at least one rating below investment grade. Six of those issues are carried under the fair value option and therefore, changes in fair value are included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments.

The following table details the remaining 10 private issue CMOs that were evaluated to determine if they were other-than-temporarily impaired at March 31, 2012:

Security	Amortized Cost	Fair Value	Outstanding Principal	Cumulative OTTI Charges Recorded	Year of Issuance	Maturity	Current Lowest Rating	Collateral Loca CA	FL	VA	NY	N
	(Dollars in thousands)											
1	$ 11,611	$ 8,529	$ 12,774	$ 3,279	2006	05/25/36	D	44%			15%	
2	5,218	3,745	5,310	447	2006	08/19/36	D	54%				
3	5,193	4,167	5,658	954	2006	08/25/36	D	36%	15%			
4	3,936	3,428	4,468	657	2006	08/25/36	D	38%	13%		12%	
5	3,156	2,868	3,439	221	2006	03/25/36	CC	36%				
6	1,705	1,732	1,716	-	2005	12/25/35	B-	39%				
7	4,781	3,193	5,057	222	2006	05/25/36	CC	27%		19%	10%	11
8	884	892	892	-	2006	08/25/36	CCC	29%				
9	1,348	1,366	1,367	-	2005	11/25/35	B-	40%		17%		
10	1,162	1,153	1,164	-	2005	11/25/35	CC	46%	10%			
Total	$ 38,994	$ 31,073	$ 41,845	$ 5,780								

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FNMA:
The unrealized losses in FNMA securities at March 31, 2012 consist of losses on one FNMA security. 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 March 31, 2012.

The following table details gross unrealized losses recorded in AOCI and the ending credit loss amount on debt securities, as of March 31, 2012, for which the Company has recorded a credit related OTTI charge in the Consolidated Statements of Income:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Losses Recorded In AOCI	Cumulative Credit OTTI Losses
Private issued CMO's (1)	$ 33,895	$ 25,929	$ 7,966	$ 2,740
Trust preferred securities (1)	9,262	4,985	4,277	3,738
Total	$ 43,157	$ 30,914	$ 12,243	$ 6,478

(1) The Company has recorded OTTI charges in the Consolidated Statements of Income on six private issue CMOs and two pooled trust preferred securities for which a portion of the OTTI is currently recorded in AOCI.

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 AOCI for the period indicated:

(in thousands)	For the three months ended March 31, 2012
Beginning balance	$ 6,922
Recognition of actual losses	(444)
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	$ 6,478

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The following table details the amortized cost and estimated fair value of the Company's securities classified as available for sale at March 31, 2012, by contractual maturity. Expected maturities will 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	$34,369	$ 34,412
Due after one year through five years	25,857	26,487
Due after five years through ten years	31,620	32,058
Due after ten years	75,853	70,803
Total other securities	167,699	163,760
Mortgage-backed securities	706,955	733,873
Total securities available for sale	$874,654	$ 897,633

The following table summarizes the Company's portfolio of securities available for sale at December 31, 2011:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
U.S. government agencies	$ 1,980	$2,039	$ 59	$ -
Corporate	20,777	20,592	-	185
Municipals	4,534	4,532	-	2
Mutual funds	21,369	21,369	-	-
Other	22,023	16,710	9	5,322
Total other securities	70,683	65,242	68	5,509
REMIC and CMO	460,824	473,639	22,796	9,981
GNMA	62,040	67,632	5,592	-
FNMA	175,627	182,630	7,003	-
FHLMC	22,556	23,387	831	-
Total mortgage-backed securities	721,047	747,288	36,222	9,981
Total securities available for sale	$ 791,730	$812,530	$ 36,290	$ 15,490

Mortgage-backed securities shown in the table above include two private issue CMO that are collateralized by commercial real estate mortgages with amortized cost and market values of $19.0 million and $19.2 million, respectively, at December 31, 2011. The remaining private issue mortgage-backed securities are backed by one-to-four family residential mortgage loans.

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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, 2011.

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate	$17,980	$ 185	$17,980	$ 185	$-	$ -
Municipals	1,997	2	1,997	2	-	-
Other	4,241	5,322	-	-	4,241	5,322
Total other securities	24,218	5,509	19,977	187	4,241	5,322
REMIC and CMO	38,684	9,981	12,560	124	26,124	9,857
Total securities available for sale	$62,902	$ 15,490	$32,537	$ 311	$30,365	$ 15,179

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. 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 unlikely to occur. 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. In assessing the adequacy of the Company's allowance for loan losses, management considers various factors such as, the current fair value of collateral for collateral dependent loans, the Company's historical loss experience, recent trends in losses, collection policies and collection experience, trends in the volume of non-performing and classified loans, changes in the composition and volume of the gross loan portfolio and local and national economic conditions. The Company's Board of Directors (the "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 for loan losses 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 indicated the inability to bring the loan current, or due to other circumstances which, in our 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 and/or updated internal evaluations are obtained as soon as practical and before the loan become 90 days delinquent. The loan balances of collateral dependant impaired loans are compared to the loan's updated fair value. The balance which exceeds fair value is generally charged-off. Management reviews the allowance for loan losses on a quarterly basis and records as a provision the amount deemed appropriate, after considering current year charge-offs, charge-off trends, new loan production, current balance by particular loan categories and delinquent loans by particular loan categories.

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A loan is considered impaired when, based upon the most current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, according to the contractual 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 the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recorded on a cash basis. The Company's management considers all non-accrual loans impaired.

The Company reviews each impaired loan to determine if a charge-off is to be recorded or if a valuation allowance is to be allocated to the loan. The Company does not allocate a valuation allowance to loans for which we have 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 performed 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 March 31, 2012, the Company utilized recent third party appraisals of the collateral to measure impairment for $143.1 million, or 75.5%, of collateral dependent impaired loans and used internal evaluations of the property's value for $46.4 million, or 24.5%, of collateral dependent impaired loans.

The Company may restructure a loan to enable a borrower 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") when the Savings Bank grants a concession to a borrower who is experiencing financial difficulties.

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. 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 March 31, 2012, 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.

During the three months ended March 31, 2012, two one-to-four family – mixed use property loans totaling $0.5 million were modified and classified as TDR, as each of these borrowers was given an interest rate that was considered below market for that borrower; and one commercial mortgage loan totaling $1.4 million was modified and classified as TDR, as the borrower had two business line of credit loans rolled into one five year fixed rate commercial mortgage and was given an interest rate that was considered below market for that borrower with the loan's amortization term extended. For each of the loans that were modified and classified as TDR, the borrower was experiencing financial difficulties. The recorded investment of each of the loans modified and classified to TDR was unchanged as there was no principal forgiven in any of these modifications.

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During the three months ended March 31, 2011, six multi-family loans totaling $1.8 million were modified and classified as TDR, as each of these borrowers was given an interest rate that was considered below market for that borrower and each had the loan's amortization term extended; two constructions loans totaling $24.2 million were modified and classified as TDR, as each of these borrowers was given an interest rate that was considered below market for that borrower; one commercial business loan for $2.0 million was modified and classified as TDR, as the borrower was given an interest rate that was considered below market for that borrower.

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

	March 31, 2012			December 31, 2011		
(Dollars in thousands)	Number of contracts		Recorded investment	Number of contracts		Recorded investment
Multi-family residential	8	$	2,356	11	$	9,412
Commercial real estate	2		2,456	2		2,499
One-to-four family - mixed-use property	4		1,084	3		795
Construction	1		5,312	1		5,888
Commercial business and other	1		2,000	1		2,000
Total performing troubled debt restructured	16	$	13,208	18	$	20,594

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

	March 31, 2012			December 31, 2011		
(Dollars in thousands)	Number of contracts		Recorded investment	Number of contracts		Recorded investment
Multi-family residential	3	$	6,856	-	$	-
Commercial real estate	3		5,313	2		4,340
One-to-four family - mixed-use property	4		1,369	3		1,193
One-to-four family - residential	-		-	-		-
Construction	1		11,496	1		11,673
Total troubled debt restructurings that subsequently defaulted	11	$	25,034	6	$	17,206

During the three months ended March 31, 2012, three multi-family TDR totaling $6.9 million were transferred to non-accrual.

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

(Dollars in thousands)	March 31, 2012	December 31, 2011
Loans ninety days or more past due and still accruing:		
Multi-family residential	$ -	$ 6,287
Commercial real estate	-	92
Construction	108	-
Total	108	6,379
Non-accrual mortgage loans:		
Multi-family residential	25,986	19,946
Commercial real estate	24,876	19,895
One-to-four family - mixed-use property	23,475	28,429
One-to-four family - residential	12,337	12,766
Co-operative apartments	110	152
Construction	11,944	14,721
Total	98,728	95,909
Non-accrual non-mortgage loans:		
Small Business Administration	592	493
Commercial Business and other	20,478	14,660
Total	21,070	15,153
Total non-accrual loans	119,798	111,062
Total non-accrual loans and loans ninety days or more past due and still accruing	$ 119,906	$ 117,441

The interest foregone on non-accrual loans and loans classified as TDR totaled $2.5 million and $2.7 million for the three months ended March 31, 2012 and March 31, 2011, respectively.

The following table shows an age analysis of our recorded investment in loans at March 31, 2012:

(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	$ 26,466	$ 10,474	$ 19,165	$ 56,105	$ 1,362,149	$ 1,418,254
Commercial real estate	10,241	2,463	23,862	36,566	521,122	557,688

One-to-four family - mixed-use property	15,336	5,539	22,997	43,872	637,517	681,389
One-to-four family - residential	4,476	1,488	12,338	18,302	195,861	214,163
Co-operative apartments	-	-	110	110	5,299	5,409
Construction loans	-	-	12,052	12,052	30,603	42,655
Small Business Administration	15	227	453	695	12,970	13,665
Taxi medallion	-	-	-	-	49,391	49,391
Commercial business and other	2,771	85	19,423	22,279	209,395	231,674
Total	$ 59,305	$ 20,276	$ 110,400	$ 189,981	$ 3,024,307	$ 3,214,288

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The following table shows an age analysis of our recorded investment in loans at December 31, 2011:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
			(in thousands)			
Multi-family residential	$ 20,083	$ 6,341	$ 26,233	$ 52,657	$ 1,338,564	$ 1,391,221
Commercial real estate	10,804	1,797	19,987	32,588	548,195	580,783
One-to-four family - mixed-use property	20,480	3,027	27,950	51,457	642,475	693,932
One-to-four family - residential	4,699	1,769	12,766	19,234	201,197	220,431
Co-operative apartments	-	-	152	152	5,353	5,505
Construction loans	5,065	-	14,721	19,786	27,354	47,140
Small Business Administration	16	41	452	509	13,530	14,039
Taxi medallion	71	-	-	71	54,257	54,328
Commercial business and other	5,476	966	10,241	16,683	189,931	206,614
Total	$ 66,694	$ 13,941	$ 112,502	$ 193,137	$ 3,020,856	$ 3,213,993

The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2012:

(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
Allowance for credit losses:										
Beginning balance	$ 11,267	$ 5,210	$ 5,314	$ 1,649	$ 80	$ 668	$ 987	$ 41	$ 5,128	$ 30,344
Charge-off's	1,061	1,780	1,468	826	42	234	113	-	495	6,019
Recoveries	57	70	56	1	-	-	9	-	100	293
Provision	1,798	2,490	1,685	1,026	54	119	(30)	(4)	(1,138)	6,000
Ending balance	$ 12,061	$ 5,990	$ 5,587	$ 1,850	$ 92	$ 553	$ 853	$ 37	$ 3,595	$ 30,618
Ending balance: individually evaluated for impairment	$ 110	$ 185	$ 542	$ -	$ 58	$ 71	$ -	$ -	$ 59	$ 1,025
	$ 11,951	$ 5,805	$ 5,045	$ 1,850	$ 34	$ 482	$ 853	$ 37	$ 3,536	$ 29,593

Ending balance: collectively evaluated for impairment										
Financing Receivables:										
Ending balance	$1,418,254	$557,688	$681,389	$214,163	$5,409	$42,655	$13,665	$49,391	$231,674	$3,214,288
Ending balance: individually evaluated for impairment	$39,308	$41,754	$36,386	$14,877	$313	$25,311	$678	$-	$30,904	$189,531
Ending balance: collectively evaluated for impairment	$1,378,946	$515,934	$645,003	$199,286	$5,096	$17,344	$12,987	$49,391	$200,770	$3,024,757

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the three month period ended March 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$34,613	$38,251	$ -	$ 33,830	$ 109
Commercial real estate	60,327	65,427	-	49,538	344
One-to-four family mixed-use property	30,616	34,677	-	32,224	96
One-to-four family residential	14,877	17,935	-	14,610	33
Co-operative apartments	111	153	-	132	-
Construction	19,999	20,226	-	15,497	156
Non-mortgage loans:					
Small Business Administration	678	1,030	-	477	1
Taxi Medallion	-	-	-	-	-
Commercial Business and other	5,670	6,402	-	8,415	3
Total loans with no related allowance recorded	166,891	184,101	-	154,723	742
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	4,695	4,759	110	8,871	72
Commercial real estate	4,661	4,661	185	3,840	40
One-to-four family mixed-use property	5,770	5,851	542	5,941	95
One-to-four family residential	-	-	-	-	-
Co-operative apartments	202	202	58	203	3
Construction	5,312	5,312	71	11,437	50
Non-mortgage loans:					
Small Business Administration	-	-	-	98	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,000	2,000	59	4,810	20
Total loans with an allowance recorded	22,640	22,785	1,025	35,200	280
Total Impaired Loans:					
Total mortgage loans	$181,183	$197,454	$ 966	$ 176,123	$ 998
Total non-mortgage loans	$8,348	$9,432	$ 59	$ 13,800	$ 24

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the year ended December 31, 2010:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$ 18,403	$ 19,200	$ -	$ 16,930	$ 838
Commercial real estate	12,474	12,547	-	10,008	443
One-to-four family mixed-use property	7,107	7,455	-	6,976	104
One-to-four family residential	8,394	8,394	-	6,556	97
Co-operative apartments	-	-	-	20	-
Construction	30,589	32,340	-	22,258	1,116
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	8,745	8,825	-	4,271	558
Total loans with no related allowance recorded	85,712	88,761	-	67,019	3,156
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	33,223	37,649	5,290	27,507	396
Commercial real estate	19,646	22,443	3,100	14,799	401
One-to-four family mixed-use property	26,432	28,622	3,960	23,551	290
One-to-four family residential	2,480	2,681	290	2,041	-
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	1,750	-
Non-mortgage loans:					
Small Business Administration	1,432	1,432	768	1,233	82
Taxi Medallion	-	-	-	-	-
Commercial Business and other	6,121	6,842	2,449	4,739	193
Total loans with an allowance recorded	89,334	99,669	15,857	75,620	1,362

Total Impaired Loans:									
Total mortgage loans	$158,748	$	171,331	$	12,640	$	132,396	$	3,685
Total non-mortgage loans	$16,298	$	17,099	$	3,217	$	10,243	$	833

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 lo does not fall within one of the previous mentioned categories then the loan would be considered "Pass." 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. Loans that are designated as Loss are charged to the Allowance for Loan Losses. Loans that are non-accrual are designated as Substandard, Doubtful or Loss. 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.

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The following table sets forth the recorded investment in loans designated as Criticized or Classified at March 31, 2012:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$ 14,592	$ 36,369	$-	$-	$50,961
Commercial real estate	11,999	39,473	-	-	51,472
One-to-four family - mixed-use property	15,727	30,195	-	-	45,922
One-to-four family - residential	3,494	14,877	-	-	18,371
Co-operative apartments	202	111	-	-	313
Construction loans	2,462	25,311	-	-	27,773
Small Business Administration	758	294	250	-	1,302
Commercial business and other	5,317	29,735	1,169	-	36,221
Total loans	$ 54,551	$ 176,365	$1,419	$-	$232,335

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2011:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$ 17,135	$ 41,393	$-	$-	$58,528
Commercial real estate	12,264	41,247	-	-	53,511
One-to-four family - mixed-use property	17,393	33,831	-	-	51,224
One-to-four family - residential	3,127	14,343	-	-	17,470
Co-operative apartments	203	153	-	-	356
Construction loans	2,570	28,555	-	-	31,125
Small Business Administration	666	256	214	-	1,136
Commercial business and other	13,585	17,613	1,169	-	32,367
Total loans	$ 66,943	$ 177,391	$1,383	$-	$245,717

The following table shows the changes in the allowance for loan losses for the periods indicated:

(In thousands)	For the three months ended March 31 2012	2011
Balance, beginning of period	$30,344	$27,699
Provision for loan losses	6,000	5,000
Charge-off's	(6,019)	(5,320)
Recoveries	293	51

Balance, end of period	$30,618	$27,430

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The following table shows net loan charge-offs for the periods indicated:

	Three Months Ended	
(In thousands)	March 31, 2012	March 31, 2011
Multi-family residential	$1,004	$ 917
Commercial real estate	1,710	1,950
One-to-four family – mixed-use property	1,412	173
One-to-four family – residential	825	1,474
Co-operative apartments	42	-
Construction	234	-
Small Business Administration	104	323
Commercial business and other	395	432
Total net loan charge-offs	$5,726	$ 5,269

6. Other Real Estate Owned

The following are changes in Other Real Estate Owned (“OREO”) during the periods indicated:

	For the three months ended March 31,	
	2012	2011
	(In thousands)	
Balance at beginning of period	$ 3,179	$ 1,588
Acquisitions	1,293	980
Write-down of carrying value	(88)	-
Sales	(780)	(386)
Balance at end of period	$ 3,604	$ 2,182

During the three months ended March 31, 2012 and 2011, the Company recorded gross gains from the sale of OREO in the amount of $45,000 and $92,000, respectively. During the three months ended March 31, 2012 and 2011, the Company recorded gross losses from the sale of OREO in the amount of $110,000 and $12,000, respectively. The net gains / losses on the sale of OREO are included in the Consolidated Statements of Income in Other operating expenses.

7. Stock-Based Compensation

For the three months ended March 31, 2012 and 2011, the Company’s net income, as reported, includes $1.5 million and $1.2 million, respectively, of stock-based compensation costs and $0.6 million and $0.5 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. During the three months ended March 31, 2012 and 2011, the Company granted 230,675 and 213,095 restricted stock units, respectively. There were no stock options granted during the three months ended March 31, 2012 and 2011.

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The 2005 Omnibus Incentive Plan ("Omnibus Plan") became effective after adoption by the Board of Directors and approval by the stockholders. The 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 be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). On May 17, 2011, stockholders approved an amendment to the Omnibus Plan authorizing an additional 625,000 shares for use for full value awards. As of March 31, 2012, there are 524,103 shares available for full value awards and 1,380 shares available for non-full value awards. 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 Company will maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis. The exercise price per share of a stock option grant may not be less than the fair market 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 contractual term. Other awards do not have a contractual term of expiration. Restricted stock unit awards include participants who have reached or are close to reaching retirement eligibility, at which time such awards fully vest. These amounts are included in stock-based compensation expense.

Full Value Awards: The first pool is available for full value awards, such as restricted stock unit awards. The pool will be decreased by the number of shares granted as full value awards. The pool will be increased from time to time by: (1) the number of shares that are returned to or retained by the Company as a result of the cancellation, expiration, forfeiture or other termination of a full value award (under the Omnibus Plan); (2) the settlement of such an award in cash; (3) the delivery to the award holder of fewer shares than the number underlying the award, including shares which are withheld from full value awards or (4) the surrender of shares by an award holder in payment of the exercise price or taxes with respect to a full value award. The Omnibus Plan will allow the Company to transfer shares from the non-full value pool to the full value pool on a 3-for-1 basis, but does not allow the transfer of shares from the full value pool to the non-full value pool.

The following table summarizes the Company's full value awards at or for the three months ended March 31, 2012:

Full Value Awards	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2011	363,589	$ 13.52
Granted	230,675	13.28
Vested	(143,300)	12.92
Forfeited	(2,196)	13.82
Non-vested at March 31, 2012	448,768	$ 13.59
Vested but unissued at March 31, 2012	117,211	$ 13.57

As of March 31, 2012, there was $4.8 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 March 31, 2012 and 2011 were $1.9 million and $1.2 million, respectively. The vested but unissued full value awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of the Omnibus Plan, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting dates.

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Non-Full Value Awards: The second pool is available for non-full value awards, such as stock options. The pool will be increased from time to time by the number of shares that are returned to or retained by the Company as a result of the cancellation, expiration, forfeiture or other termination of a non-full value award (under the Omnibus Plan or the 1996 Stock Option Incentive Plan). The second pool will not be replenished by shares withheld or surrendered in payment of the exercise price or taxes, retained by the Company as a result of the delivery to the award holder of fewer shares than the number underlying the award or the settlement of the award in cash.

The following table summarizes certain information regarding the non-full value awards, all of which have been granted as stock options, at or for the three months ended March 31, 2012:

Non-Full Value Awards	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value ($000) *
Outstanding at December 31, 2011	975,640	$	15.16			
Granted	-		-			
Exercised	(67,330)		11.76			
Forfeited	-		-			
Outstanding at March 31, 2012	908,310	$	15.41	3.3	$	567
Exercisable shares at March 31, 2012	813,310	$	15.62	3.0	$	341
Vested but unexercisable shares at March 31, 2012	6,960	$	14.44	6.1	$	13

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

As of March 31, 2012, there was $0.1 million of total unrecognized compensation cost related to unvested non-full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 1.2 years. The vested but unexercisable non-full value awards were made to employees who are eligible for retirement. According to the terms of the Omnibus Plan, these employees have no risk of forfeiture. These awards will be exercisable at the original contractual vesting dates.

Cash proceeds, fair value received, tax benefits and the intrinsic value related to stock options exercised during the three months ended March 31, 2012 and 2011 are provided in the following table:

(In thousands)	For the three months ended March 31, 2012	2011
Proceeds from stock options exercised	$ 244	$ 525
Fair value of shares received upon exercised of stock options	548	-
Tax benefit (expense) related to stock options exercised	24	(64)
Intrinsic value of stock options exercised	114	79

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 and above and completed one year of service. However, officers who had achieved at least the level of Vice President and completed one year of service prior to January 1, 2009 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 market 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 their interest in the Savings Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for 5 years. 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.

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The following table summarizes the Phantom Stock Plan at or for the three months ended March 31, 2012:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2011	39,255	$ 12.63
Granted	10,332	13.12
Forfeited	-	-
Distributions	(58)	13.00
Outstanding at March 31, 2012	49,529	$ 13.46
Vested at March 31, 2012	49,121	$ 13.46

The Company recorded stock-based compensation expense for the Phantom Stock Plan of $42,000 and $37,000 for the three months ended March 31, 2012 and 2011, respectively. The total fair value of the distributions from the Phantom Stock Plan was $1,000 for each of the three month periods ended March 31, 2012 and 2011, respectively.

8. 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 March 31,	
(In thousands)	2012	2011
Employee Pension Plan:		
Interest cost	$220	$246
Amortization of unrecognized loss	263	153
Expected return on plan assets	(310)	(308)
Net employee pension expense	$173	$91
Outside Director Pension Plan:		
Service cost	$20	$17
Interest cost	28	31
Amortization of unrecognized gain	(7)	(13)
Amortization of past service liability	9	10
Net outside director pension expense	$50	$45
Other Postretirement Benefit Plans:		
Service cost	$100	$78
Interest cost	54	52
Amortization of unrecognized loss	10	-
Amortization of past service credit	(21)	(21)
Net other postretirement expense	$143	$109

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2011 that it expects to contribute $0.5 million to the Company's Employee Pension Plan (the "Employee Pension Plan") and $0.2 million to each of the Outside Director Pension Plan (the "Outside Director Pension Plan") and the other post retirement benefit plans (the "Other Postretirement Benefit Plans") during the year ending December 31, 2012. As of March 31, 2012, the Company has contributed $120,000 to the Employee Pension Plan, $22,000 to the Outside Director Pension Plan and $14,000 to the Other Postretirement Benefit Plans. As of March 31, 2012, the Company has not revised its expected contributions for the year ending December 31, 2012.

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9. Fair Value of Financial Instruments

The Company carries certain financial assets and financial liabilities at fair value in accordance with ASC Topic 825, "Financial Instruments" ("ASC Topic 825") and values those financial assets and financial liabilities in accordance with ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC Topic 820"). ASC Topic 820 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. ASC Topic 825 permits entities to choose to measure many financial instruments and certain other items at fair value. At March 31, 2012, the Company carried financial assets and financial liabilities under the fair value option with fair values of $65.9 million and $26.1 million, respectively. At December 31, 2011, the Company carried financial assets and financial liabilities under the fair value option with fair values of $68.7 million and $26.3 million, respectively. During the three months ended March 31, 2012, the Company did not elect to carry any additional financial assets or financial liabilities under the fair value option. The Company elected to measure at fair value securities with a cost of $10.0 million that were purchased during the three months ended March 31, 2011.

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:

(Dollars in thousands)	Fair Value Measurements at March 31, 2012	Fair Value Measurements at December 31, 2011	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option — Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Mortgage-backed securities	$ 34,629	$ 37,787	$ (18)	$ (602)
Other securities	31,247	30,942	241	(509)
Borrowed funds	26,136	26,311	171	425
Net gain from fair value adjustments (1)			$ 394	$ (686)

(1) The net gain (loss) from fair value adjustments presented in the above table does not include net losses of $0.8 million and gains of $31,000 for the three months ended March 31, 2012 and 2011, respectively, from the change in the fair value of interest rate caps / 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. One pooled trust preferred security is over 90 days past due and the Company has stopped accruing interest. The Company continues to accrue on the remaining financial instruments and 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 March 31, 2012 and December 31, 2011. The fair value of borrowed funds includes accrued interest payable of $0.4 million at March 31, 2012 and December 31, 2011.

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.

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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, foreclosed properties 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 March 31, 2012 and December 31, 2011.

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 March 31, 2012, Level 2 includes mortgage related securities, corporate debt and interest rate caps/swaps. At December 31, 2011, Level 2 includes mortgage related securities, corporate debt and interest rate caps.

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At March 31, 2012 and December 31, 2011, Level 3 includes 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, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the three months ended March 31, 2012	
	Trust preferred	Junior subordinated

	securities	debentures
	(In thousands)	
Beginning balance	$ 5,632	$ 26,311
Transfer into Level 3	-	-
Net gain from fair value adjustment of financial assets	142	-
Net gain from fair value adjustment of financial liabilities	-	(171)
Decrease in accrued interest	-	(4)
Change in unrealized net gains included in other comprehensive income	1,005	-
Ending balance	$ 6,779	$ 26,136

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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 March 31, 2012 and December 31, 2011:

	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	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in thousands)							
Assets:								
Mortgage-backed Securities	$ -	$ -	$ 733,873	$ 747,288	$ -	$ -	$ 733,873	$ 747,288
Other securities	-	-	156,981	59,610	6,779	5,632	163,760	65,242
Interest rate caps	-	-	208	356	-	-	208	356
Total assets	$ -	$ -	$ 891,062	$ 807,254	$ 6,779	$ 5,632	$ 897,841	$ 812,886
Liabilities:								
Borrowings	$ -	$ -	$ -	$ -	$ 26,136	$ 26,311	$ 26,136	$ 26,311
Interest rate swaps	-	-	693	-	-	-	693	-
Total liabilities	$ -	$ -	$ 693	$ -	$ 26,136	$ 26,311	$ 26,829	$ 26,311

The following table sets forth the Company's assets that are carried at fair value on a non-recurring basis and the method that was used to determine their fair value, at March 31, 2012 and December 31, 2011:

	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	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in thousands)							
Assets:								
Impaired loans	$ -	$ -	$ -	$ -	$ 60,826	$ 48,555	$ 60,826	$ 48,555
Other Real Estate Owned	-	-	-	-	3,604	3,179	3,604	3,179

Total assets	$ -	$ -	$ -	$ -	$ 64,430	$ 51,734	$ 64,430	$ 51,734

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at March 31, 2012 and December 31, 2011.

The estimated fair value of each material class of financial instruments at March 31, 2012 and December 31, 2011 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 (Level 1).

FHLB-NY stock:

The fair value is based upon the par value of the stock which equals its carrying value (Level 2).

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Securities Available for Sale:

Securities available for sale are carried at fair value in the Consolidated Financial Statements. Fair value is based upon quoted market prices (Level 1 input), 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 (Level 2 input). When there is limited activity or less transparency around inputs to the valuation, securities are classified as (Level 3 input).

Loans:

The estimated 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 (Level 3 input).

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 (Level 3 input).

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) (Level 1). 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 (Level 2 input).

Borrowings:

The estimated 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 (Level 2 input) or using a market-standard model (Level 3 input).

Interest Rate Caps:

The estimated fair value of interest rate caps is based upon broker quotes (Level 2 input).

Interest Rate Swaps:

The estimated fair value of interest rate swaps is based upon broker quotes (Level 2 input).

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 (Level 3 input).

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 March 31, 2012 and December 31, 2011, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

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The following table sets forth the carrying amounts and estimated fair values of selected financial instruments as well as assumptions used by the Company in estimating fair value at March 31, 2012 and December 31, 2011:

	March 31, 2012					December 31, 2011	
	Carrying Amount (in thousands)	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value
Assets:							
Cash and due from banks	$35,390	$35,390	$35,390	$-	$-	$55,721	$55,721
Mortgage-backed Securities	733,873	733,873	-	733,873	-	747,288	747,288
Other securities	163,760	163,760	-	156,981	6,779	65,242	65,242
Loans	3,228,698	3,385,874	-	-	3,385,874	3,228,881	3,407,454
FHLB-NY stock	32,221	32,221	-	32,221	-	30,245	30,245
Interest rate caps	208	208	-	208	-	356	356
OREO	3,604	3,604	-	-	3,604	3,179	3,179
Total assets	$4,197,754	$4,354,930	$35,390	$923,283	$3,396,257	$4,130,912	$4,309,485
Liabilities:							
Deposits	$3,170,134	$3,224,365	$1,708,483	$1,515,882	$-	$3,146,245	$3,211,405
Borrowings	729,161	771,284	-	745,148	26,136	685,139	728,067
Interest rate swaps	693	693	-	693	-	-	-
Total liabilities	$3,899,988	$3,996,342	$1,708,483	$2,261,723	$26,136	$3,831,384	$3,939,472

10. Derivative Financial Instruments

At March 31, 2012, the Company's derivative financial instruments consist of purchased options and swaps. The purchased options are used to mitigate the Company's exposure to rising interest rates on its financial liabilities without stated maturities. The Company's swaps are used to mitigate the Company's exposure to market value changes in its junior subordinated debentures with a contractual value of $60.9 million.

These derivatives are not designated as hedges and have a combined notional amount of $118.0 million at March 31, 2012. Changes in the fair value of these derivatives are reflected in "net loss from fair value adjustments" in the Consolidated Statements of Income.

The following table sets forth information regarding the Company's derivative financial instruments at March 31, 2012:

	March 31, 2012		
	Notional	Cumulative	Net Gain

	Amount	Purchase Price	Unrealized Gain	Loss	(loss) Position (1)
	(In thousands)				
Interest rate caps	$100,000	$9,035	$-	$8,827	$ 208
Interest rate swaps	18,000	-	-	693	(693)
Total derivatives	$118,000	$9,035	$-	$9,521	$ (486)

(1) Derivatives in a net gain position are recorded as "Other assets" and derivatives in a net loss position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

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The following table displays a summary of the terms of the interest rate caps and interest rate swaps currently held by the Savings Bank:

	Interest Rate Cap 1	Interest Rate Cap 2	Interest Rate Swap 1	Interest Rate Swap 2	Interest Rate Swap 3
			(Dollars in thousands)		
Notional Amount	$ 50,000	$ 50,000	$ 6,000	$ 6,000	$ 6,000
Trade Date	August 12, 2009	August 24, 2009	March 19, 2012	March 20, 2012	March 20, 2012
Effective Date	August 14, 2009	August 26, 2009	September 1, 2012	July 30, 2012	June 15, 2012
Fixed Rate Paid By Savings Bank	n/a	n/a	3.18 %	3.21 %	3.22 %
Adjustable rate paid by counterparty	3 month LIBOR	3 month LIBOR	3 month LIBOR	3 month LIBOR	3 month LIBOR
Strike price (3 month LIBOR)	1.47 %	1.47 %	n/a	n/a	n/a
Maturity Date	August 14, 2014	August 26, 2014	September 1, 2037	July 30, 2037	September 15, 2037

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

	Three months ended March 31,	
(In thousands)	2012	2011
Financial Derivatives:		
Interest rate caps	$(148)	$(31)
Interest rate swaps	(693)	-
Net gain (loss)	$(841)	$(31)

11. 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 Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV, which file separate Federal income tax returns as trusts, and Flushing Preferred Funding Corporation, which files a separate Federal and New York State income tax return as a real estate investment trust.

Income tax provisions are summarized as follows:

(In thousands)	For the three months ended March 31, 2012	2011
Federal:		
Current	$3,132	$3,826
Deferred	492	86
Total federal tax provision	3,624	3,912
State and Local:		
Current	713	1,107
Deferred	221	39
Total state and local tax provision	934	1,146
Total income tax provision	$4,558	$5,058

The income tax provision in the Consolidated Statements of Income has been provided at effective rates of 39.0% and 38.9% for the three months ended March 31, 2012 and 2011, respectively.

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

(dollars in thousands)	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
Taxes at federal statutory rate	$4,090	35.0 %	$4,554	35.0 %
Increase (reduction) in taxes resulting from:				
State and local income tax, net of Federal income tax benefit	607	5.2	745	5.7
Other	(139)	(1.2)	(241)	(1.8)
Taxes at effective rate	$4,558	39.0 %	$5,058	38.9 %

The Company has recorded a deferred tax asset of $33.2 million at March 31, 2012, 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 $30.9 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 March 31, 2012.

12. Accumulated Other Comprehensive Income:

The components of accumulated other comprehensive income at March 31, 2012 and December 31, 2011 and the changes during the period are as follows:

	March 31, 2012	Other Comprehensive Income (loss)	December 31, 2011
		(In thousands)	
Net unrealized gain on securities available for sale	$12,896	$ 1,217	$ 11,679
Net actuarial loss on pension plans and other postretirement benefits	(7,067)	149	(7,216)
Prior service cost on pension plans and other postretirement benefits	344	(6)	350
Accumulated other comprehensive income	$6,173	$ 1,360	$ 4,813

13. Regulatory

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") imposes a number of mandatory supervisory measures on banks and thrift institutions. Among other matters, FDICIA established five capital zones or classifications (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized). Such classifications are used by the Office of the Comptroller of the Currency ("OCC") and other bank regulatory agencies to determine matters ranging from each institution's quarterly FDIC deposit insurance premium assessments, to approvals of applications authorizing institutions to grow their asset size or otherwise expand business activities. Under OCC capital regulations, the Savings Bank is required to comply with each of three separate capital adequacy standards.

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At March 31, 2012, the Savings Bank exceeded each of the three capital requirements and is categorized as "well-capitalized" under the prompt corrective action regulations. Set forth below is a summary of the Savings Bank's compliance:

(Dollars in thousands)	Amount	Percent of Assets	
Core Capital:			
Capital level	$413,220	9.54	%
Well capitalized	216,624	5.00	
Excess	196,596	4.54	
Tier 1 Risk-Based Capital:			
Capital level	$413,220	13.98	%
Well capitalized	177,310	6.00	
Excess	235,910	7.98	
Risk-Based Capital:			
Capital level	$443,838	15.02	%
Well capitalized	295,517	10.00	
Excess	148,321	5.02	

14. New Authoritative Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-03, which amends the authoritative accounting guidance under ASC Topic 860 "Transfers and Servicing." The amendments in this update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Adoption of this update did not have a material effect on the Company's consolidated results of operations or financial condition.

In May 2011, the FASB issued ASU No. 2011-04, which amends the authoritative accounting guidance under ASC Topic 820 "Fair Value Measurement." The amendments in this update clarify how to measure and disclose fair value under ASC Topic 820. The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Adoption of this update did not have a material effect on the Company's consolidated results of operations or financial condition.

In June 2011, the FASB issued ASU No. 2011-05, which amends the authoritative accounting guidance under ASC Topic 220 "Comprehensive Income." The amendments eliminate the option to present components of other comprehensive income in the statement of stockholders' equity. Instead, the new guidance requires entities to present all nonowner changes in stockholders' equity either as a single continuous statement of comprehensive income or as two separate but consecutive statements. The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011 and must be applied retrospectively. Early adoption is permitted. Adoption of this update did not have a material effect on the Company’s consolidated results of operations or financial condition. See the Consolidated Statements of Comprehensive Income.

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In September 2011, the FASB issued ASU No. 2011-08, which amends the authoritative accounting guidance under ASC Topic 350 "Intangibles – Goodwill and Other." The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. Adoption of this update did not have a material effect on the Company's consolidated results of operations or financial condition.

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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, 2011. 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 Financia Corporation and its direct and indirect wholly-owned subsidiaries, Flushing Savings Bank, FSB (the "Savings Bank"), Flushing Commercial Bank (the "Commercial Bank," and together with the Savings Bank, the "Banks"), 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, 2011. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "fo or "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 at the direction of the Savings Bank. The Savings Bank was organized in 1929 as a New York State chartered mutual savings bank. In 1994, the Savings Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Savings Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank in 1995. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Savings Bank's primary regulator became the Office of the Comptroller of the Currency ("OCC"). The Banks' deposits are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation ("FDIC"). The primary business of Flushing Financial Corporation at this time is the operation of its wholly owned subsidiary, the Savings Bank. The Savings Bank owns four subsidiaries: Flushing Commercial Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation and FSB Properties Inc. In November 2006, the Savings Bank launched an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Savings 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 properties and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units) and commercial real estate mortgage loans; (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 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

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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.

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;
- transition from a traditional thrift 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,
  - § 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.

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 9 of the Notes to the Consolidated Financial Statements.

At March 31, 2012, total assets were $4,358.0 million, an increase of $70.0 million from $4,287.9 million at December 31, 2011. Total loans, net decreased $0.5 million during the three months ended March 31, 2012 to $3,198.1 million from $3,198.5 million at December 31, 2011. Loan originations and purchases were $118.6 million for the three months ended March 31, 2012, an increase of $19.6 million from $99.1 million for the three months ended March 31, 2011. Loan applications in process increased to $258.4 million compared to $194.4 million at December 31, 2011 and $164.7 million at March 31, 2011.

We continue 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 first quarter of 2012 had an average loan-to-value ratio of 43.3% and an average debt coverage ratio of 226%.

Non-performing loans were $119.9 million at March 31, 2012, an increase of $2.5 million from $117.4 million at December 31, 2011. Performing loans delinquent 60 to 89 days were $12.4 million at March 31, 2012, a decrease of $1.5 million from $13.9 million at December 31, 2011. Performing loans delinquent 30 to 59 days were $58.8 million at March 31, 2012, a decrease of $3.4 million from $62.2 million at December 31, 2011. The majority of non-performing loans are collateralized by residential income producing properties in the New York City metropolitan area that remain occupied and generate revenue. Given New York City’s low vacancy rates, they have retained value and provided us with low loss content in our non-performing loans. We review the property values of impaired loans quarterly and charge-off amounts in excess of 85% of the value of the loan's collateral. Net loan charge-offs during the three months ended March 31, 2012 were 72 basis points of average loans, which continue to be below the industry average.

Total liabilities were $3,935.0 million at March 31, 2012, an increase of $64.0 million from $3,871.0 million at December 31, 2011. During the three months ended March 31, 2012, due to depositors increased $12.4 million to $3,128.9 million. Borrowed funds increased $44.0 million during the three months ended March 31, 2012.

Net income for the three months ended March 31, 2012 was $7.1 million, a decrease of $0.8 million compared to $8.0 million for the three months ended March 31, 2011. Diluted earnings per common share were $0.23 for the three months ended March 31, 2012, a decrease of $0.03 from $0.26 for the three months ended March 31, 2011. Return on average equity was 6.8% for the three months ended March 31, 2012 compared to 8.2% for the three months ended March 31, 2011.

The net interest margin for the three months ended March 31, 2012 increased six basis points to 3.68% from 3.62% for the three months ended March 31, 2011. The increase in the net interest margin was primarily due to a reduction of 26 basis points in the cost of interest-bearing liabilities for the three months ended March 31, 2012 from the comparable prior year period. The decrease in the cost of interest-bearing liabilities was primarily attributable to reductions in the rates paid on deposits and a decrease in the cost of borrowed funds.

We recorded a provision for loan losses of $6.0 million during the three months ended March 31, 2012, which was an increase of $1.0 million from $5.0 million recorded during the three months ended March 31, 2011. The provision was deemed necessary as a result of the regular quarterly analysis of the allowance for loan losses. The regular quarterly analysis is based on management's evaluation of the risks inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), changes in the composition and volume of the portfolio, collection policies and experience, trends in the volume of non-accrual loans and local and national economic conditions. See "-ALLOWANCE FOR LOAN LOSSES."

The Savings Bank continues to be well-capitalized under regulatory requirements, with Core, Tier 1 risk-based and Total risk-based capital ratios of 9.54%, 13.98% and 15.02%, respectively, at March 31, 2012.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

General. Net income for the three months ended March 31, 2012 was $7.1 million, a decrease of $0.8 million, or 10.4%, compared to $8.0 million for the three months ended March 31, 2011. Diluted earnings per common share were $0.23 for the three months ended March 31, 2012, a decrease of $0.03, or 11.5%, from $0.26 for the three months ended March 31, 2011. Return on average equity was 6.8% for the three months ended March 31, 2012 compared to 8.2% for the three months ended March 31, 2011. Return on average assets was 0.7% for the three months ended March 31, 2012 and 2011.

Interest Income. Total interest and dividend income decreased $2.6 million, or 4.6%, to $54.4 million for the three months ended March 31, 2012 from $57.0 million for the three months ended March 31, 2011. The decrease in interest income was attributable to a 20 basis point decline in the yield of interest-earning assets to 5.36% for the three months ended March 31, 2012 from 5.56% in the comparable prior year period combined with a $54.7 million decrease in the average balance of total loans to $3,194.0 million for the three months ended March 31, 2012, from $3,248.7 million for the comparable prior year period. The 20 basis point decline in the yield of interest-earning assets was primarily due to a 17 basis point reduction in the yield of the loan portfolio to 5.83% for the three months ended March 31, 2012 from 6.00% for the three months ended March 31, 2011, combined with a 35 basis point decline in the yield on total securities to 3.81% for the three months ended March 31, 2012 from 4.16% for the comparable prior year period. In addition, the yield of interest-earning assets was negatively impacted by a $54.7 million decrease in the average balance of the higher yielding loan portfolio for the three months ended March 31, 2012 and a $23.9 million increase in the average balances of the lower yielding securities portfolio for the three months ended March 31, 2012 which has a lower yield than the yield of total interest-earning assets. These factors that reduced the yield were partially offset by a $13.0 million decrease in the average balance of lower yielding interest-earning deposits to $45.0 million for the three months ended March 31, 2012 from $57.9 million for the comparable prior year period. The 17 basis point decrease in the loan portfolio was primarily due to the decline in the rates earned on new loan originations partially offset by an increase in prepayment penalty income during the

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three months ended March 31, 2012 compared to the three months ended March 31, 2011. The yield on the mortgage loan portfolio decreased 16 basis points to 5.94% for the three months ended March 31, 2012 from 6.10% for the three months ended December 31, 2011. The yield on the mortgage loan portfolio, excluding prepayment penalty income, decreased 23 basis points to 5.80% for the three months ended March 31, 2012 from 6.03% for the three months ended March 31, 2011. The 35 basis point decrease in the securities portfolio yield was primarily due to the purchase of new securities at lower yields than the existing portfolio.

Interest Expense. Interest expense decreased $2.8 million, or 14.1%, to $17.1 million for the three months ended March 31, 2012 from $19.9 million for the three months ended March 31, 2011. The decrease in interest expense was due to the reduction in the cost of interest-bearing liabilities, which decreased 26 basis points to 1.83% for the three months ended March 31, 2012 from 2.09% for the comparable prior year period, combined with a $74.6 million decrease in the average balance of interest-bearing liabilities to $3,731.2 million for the three months ended March 31, 2012 from $3,805.9 million for the comparable prior year period. The 26 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to the Bank reducing the rates it pays on its deposit products and a reducing the cost of borrowed funds. The cost of certificates of deposit, money market accounts, savings accounts and NOW accounts decreased 14 basis points, 16 basis points, 34 basis points and 18 basis points, respectively, for the three months ended March 31, 2012 from the comparable prior year period. This resulted in a decrease in the cost of due to depositors of 15 basis points to 1.45% for the three months ended March 31, 2012 from 1.60% for the three months ended March 31, 2011. The cost of borrowed funds decreased 81 basis points from the comparable prior year period to 3.60% for the three months ended March 31, 2012. This decrease in the cost of borrowed funds was primarily due to maturing borrowing being replaced at lower rates.

Net Interest Income. For the three months ended March 31, 2012, net interest income was $37.3 million, an increase of $0.2 million, or 0.5%, from $37.2 million for the three months ended March 31, 2011. The increase in net interest income was attributable to a six basis point increase in the net-interest spread to 3.53% for the three months ended March 31, 2012 from 3.47% for the three months ended March 31, 2011, partially offset by a decrease of $43.8 million in the average balance of interest-earning assets to $4,062.3 million for the three months ended March 31, 2012 from $4,106.0 million for the comparable prior year period. The yield on interest-earning assets decreased 20 basis points to 5.36% for the three months ended March 31, 2012 from 5.56% for the three months ended March 31, 2011. However, this was more than offset by a decline in the cost of funds of 26 basis points to 1.83% for the three months ended March 31, 2012 from 2.09% for the comparable prior year period. The net interest margin improved six basis points to 3.68% for the three months ended March 31, 2012 from 3.62% for the three months ended March 31, 2011. Excluding prepayment penalty income, the net interest margin would have been 3.57% for the three months ended March 31, 2012 and 2011.

Provision for Loan Losses. A provision for loan losses of $6.0 million was recorded for the three months ended March 31, 2012, an increase of $1.0 million from $5.0 million that was recorded for the three months ended March 31, 2011. During the three months ended March 31, 2012, non-performing loans increased $2.5 million to $119.9 million from $117.4 million at December 31, 2011. Net charge-offs for the three months ended March 31, 2012 totaled $5.7 million. The current loan-to-value ratio for our non-performing loans collateralized by real estate was 62.6% at March 31, 2012. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. We anticipate that we will continue to see low loss content in our loan portfolio. The Bank continues to maintain conservative underwriting standards. However, given the level of non-performing loans, the current economic uncertainties, and the charge-offs recorded in the first quarter of 2012, management, as a result of the regular quarterly analysis of the allowance for loans losses, deemed it necessary to record a $6.0 million provision for possible loan losses in the first quarter of 2012.See “-ALLOWANCE FOR LOAN LOSSES.”

Non-Interest Income. Non-interest income for the three months ended March 31, 2012 was $1.9 million, an increase of $1.0 million from $0.9 million for the three months ended March 31, 2011. The increase in non-interest income was primarily due to a $0.9 million decrease in other-than-temporary impairment charges recorded during the three months ended March 31, 2012 compared to the three months ended March 31, 2011.

Non-Interest Expense. Non-interest expense was $21.5 million for the three months ended March 31, 2012, an increase of $1.5 million, or 7.6%, from $20.0 million for the three months ended March 31, 2011. The increase was primarily due to the growth of the Bank over the past year, which included the opening of a new branch in January 2012, an increase in stock based compensation expense, employee benefits expense and other real estate owned/foreclosure expense. Salaries and benefits increased $1.0 million for the three months ended March 31, 2012

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compared to the three months ended March 31, 2011. In addition, other real estate owned/foreclosure expense and other operating expense for the three months ended March 31, 2012 increased $0.4 million and $0.3 million, respectively, compared to the three months ended March 31, 2011. These increases were partially offset by a $0.4 million decrease in FDIC assessments during the three months ended March 31, 2012 from the comparable prior year period. The efficiency ratio was 53.4% for the three months ended March 31, 2012 compared to 50.4% for the three months ended March 31, 2011.

Income before Income Taxes. Income before the provision for income taxes decreased $1.3 million, or 10.2%, to $11.7 million for the three months ended March 31, 2012 from $13.0 million for the three months ended March 31, 2011 for the reasons discussed above.

Provision for Income Taxes. Income tax expense decreased $0.5 million to $4.6 million for the three months ended March 31, 2012 from $5.1 million for the three months ended March 31, 2011. The effective tax rate was 39.0% and 38.9% for the three months ended March 31, 2012 and 2011, respectively.

FINANCIAL CONDITION

Assets. Total assets at March 31, 2012 were $4,358.0 million, an increase of $70.0 million, or 1.6%, from $4,287.9 million at December 31, 2011. Total loans, net decreased $0.5 million, during the three months ended March 31, 2012 to $3,198.1 million from $3,198.5 million at December 31, 2011. Loan originations and purchases were $118.6 million for the three months ended March 31, 2012, an increase of $19.6 million from $99.1 million for the three months ended March 31, 2011. During the three months ended March 31, 2012, we continued to focus on the origination of multi-family properties and deemphasize non-owner occupied commercial real estate and construction lending. Loan applications in process have continued to show improvement, totaling $258.4 million at March 31, 2012 compared to $194.4 million at December 31, 2011 and $164.7 million at March 31, 2011.

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

	For the three months ended March 31,	
(In thousands)	2012	2011
Multi-family residential	$ 61,903	$ 46,019
Commercial real estate	3,424	1,419
One-to-four family – mixed-use property	5,115	4,819
One-to-four family – residential	5,805	3,353
Co-operative apartments	-	-
Construction	-	1,006
Small Business Administration	266	2,329
Taxi medallion (1)	3,464	23,824
Commercial business and other	38,636	16,291
Total	$ 118,613	$ 99,060

(1) Includes purchases of $3.5 million and $12.6 million for the three months ended March 31, 2012 and 2011, respectively.

We continue 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 first quarter of 2012 had an average loan-to-value ratio of 43.3% and an average debt coverage ratio of 226%.

The Savings Bank's non-performing assets totaled $126.5 million at March 31, 2012, an increase of $3.4 million from $123.2 million at December 31, 2011. Total non-performing assets as a percentage of total assets were 2.90% at March 31, 2012 compared to 2.87% at December 31, 2011. The ratio of allowance for loan losses to total non-performing loans was 25.5% at March 31, 2012 compared to 25.8% at December 31, 2011. See – "TROUBLED DEBT RESTRUCUTURED AND NON-PERFORMING ASSETS."

During the three months ended March 31, 2012, mortgage-backed securities decreased $13.4 million, or 1.8%, to $733.9 million from $747.3 million at December 31, 2011. The decrease in mortgage-backed securities during the three months ended March 31, 2012 was primarily due to principal repayments of $37.9 million partially offset by purchases of $24.6 million and a $0.7 million improvement in fair value. During the three months ended March 31,

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2012, other securities increased $98.5 million, or 151.0%, to $163.8 million from $65.2 million at December 31, 2011. The increase in other securities during the three months ended March 31, 2012 was primarily due to purchases of $97.9 million. Other securities primarily consist of securities issued by government agencies, mutual or bond funds that invest in government and government agency securities and corporate bonds.

Liabilities. Total liabilities were $3,935.0 million at March 31, 2012, an increase of $64.0 million, or 1.7%, from $3,871.0 million at December 31, 2011. During the three months ended March 31, 2012, due to depositors increased $12.4 million, or 0.4%, to $3,128.9 million, as a result of a $79.9 million increase in core deposits partially offset by a $67.5 million decrease in certificates of deposit. Borrowed funds increased $44.0 million during the three months ended March 31, 2012.

Equity. Total stockholders' equity increased $6.0 million, or 1.5%, to $423.0 million at March 31, 2012 from $416.9 million at December 31, 2011. Stockholders' equity increased primarily due to net income of $7.1 million for the three months ended March 31, 2012, an increase in other comprehensive income of $1.4 million primarily due to an increase in the fair value of the securities portfolio and $1.4 million due to the issuance of shares from the annual funding of certain employee retirement plans through the release of common shares from the Employee Benefit Trust. In addition, the exercise of stock options increased stockholders' equity by $0.3 million, including the income tax benefit realized. These increases were partially offset by the declaration and payment of dividends on the Company's common stock of $4.0 million and the purchase of 97,200 treasury shares at a cost of $1.3 million. Book value per common share was $13.68 at March 31, 2012 compared to $13.49 at December 31, 2011. Tangible book value per common share was $13.16 at March 31, 2012 compared to $12.96 at December 31, 2011.

On September 28, 2011, the Company announced the authorization by the Board of Directors of a new common stock repurchase program which authorizes the purchase of up to 1,000,000 shares of the Company's common stock. During the three months ended March 31, 2012, the Company repurchased 97,200 shares of the Company's common stock at an average cost of $13.19 per share. At March 31, 2012, 640,762 shares remain to be repurchased under the current 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.

Cash flow. During the three months ended March 31, 2012, funds provided by the Company's operating activities amounted to $16.9 million. These funds, together with $62.3 million provided by financing activities, were utilized to fund net investing activities of $99.5 million. The Company's primary business objective is the origination and purchase of one-to-four family (including mixed-use properties), multi-family residential and commercial real estate mortgage loans and commercial, business and SBA loans. During the three months ended March 31, 2012, the net total of loan originations and purchases less loan repayments and sales was a $14.2 million. During the three months ended March 31, 2012, the Company also funded $122.5 million in purchases of securities available for sale. During the three months ended March 31, 2012, funds were primarily provided by an increase of $58.5 million in short-term borrowed funds, a $23.6 million increase in total deposits and $39.0 million in proceeds from maturities, sales, calls and prepayments of securities available for sale. These increases funded a $14.6 million decrease in long-term borrowed funds. The Company also used funds of $4.0 million and $1.7 million for dividend payments and purchases of treasury stock, respectively, during the three months ended March 31, 2012.

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 operation 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

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or down of 200 basis points. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market 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 market 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 March 31, 2012. 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 March 31, 2012, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company's interest rate shock as of March 31, 2012:

	Projected Percentage Change In		
Change in Interest Rate	Net Interest Income	Net Portfolio Value	Net Portfolio Value Ratio
-200 Basis points	-2.30 %	31.84 %	15.20 %
-100 Basis points	-0.41	16.85	13.79
Base interest rate	0.00	0.00	12.20
+100 Basis points	-4.76	-15.97	10.61
+200 Basis points	-9.36	-31.38	8.97

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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 March 31, 2012 and 2011, 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 March 31,					
	2012			2011		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets						
Interest-earning assets:						
Mortgage loans, net (1)	$ 2,906,820	43,197	5.94 %	$ 2,947,028	44,934	6.10 %
Other loans, net (1)	287,147	3,363	4.68	301,636	3,756	4.98
Total loans, net	3,193,967	46,560	5.83	3,248,664	48,690	6.00
Mortgage-backed securities	706,576	7,013	3.97	743,637	7,854	4.22
Other securities	116,757	825	2.83	55,807	455	3.26
Total securities	823,333	7,838	3.81	799,444	8,309	4.16
Interest-earning deposits and federal funds sold	44,969	17	0.15	57,935	27	0.19
Total interest-earning assets	4,062,269	54,415	5.36	4,106,043	57,026	5.56
Other assets	235,056			214,931		
Total assets	$ 4,297,325			$ 4,320,974		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$ 339,059	228	0.27	$ 376,746	575	0.61
NOW accounts	980,775	1,650	0.67	831,028	1,774	0.85
Money market accounts	195,102	164	0.34	363,614	459	0.50
Certificate of deposit accounts	1,494,154	8,857	2.37	1,514,480	9,514	2.51
Total due to depositors	3,009,090	10,899	1.45	3,085,868	12,322	1.60
Mortgagors' escrow accounts	38,238	11	0.12	35,964	12	0.13
Total deposits	3,047,328	10,910	1.43	3,121,832	12,334	1.58
Borrowed funds	683,917	6,160	3.60	684,032	7,537	4.41
	3,731,245	17,070	1.83	3,805,864	19,871	2.09

Total interest-bearing liabilities						
Non interest-bearing deposits	114,489			99,112		
Other liabilities	32,109			26,545		
Total liabilities	3,877,843			3,931,521		
Equity	419,482			389,453		
Total liabilities and equity	$ 4,297,325			$ 4,320,974		
Net interest income / net interest rate spread		$ 37,345	3.53 %		$ 37,155	3.47 %
Net interest-earning assets / net interest margin	$ 331,024		3.68 %	$ 300,179		3.62 %
Ratio of interest-earning assets to interest-bearing liabilities			1.09 X			1.08 X

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$0.7 million and \$0.3 million for the three months ended March 31, 2012 and 2011, respectively.

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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.

	For the three months ended March 31,	
(In thousands)	2012	2011
Mortgage Loans		
At beginning of period	$ 2,939,012	$ 2,966,890
Mortgage loans originated:		
Multi-family residential	61,903	46,019
Commercial real estate	3,424	1,419
One-to-four family – mixed-use property	5,115	4,819
One-to-four family – residential	5,805	3,353
Co-operative apartments	-	-
Construction	-	1,006
Total mortgage loans originated	76,247	56,616
Less:		
Principal and other reductions	86,859	67,323
Sales	8,842	3,018
At end of period	$ 2,919,558	$ 2,953,165
Commercial Business and Other Loans		
At beginning of period	$ 274,981	$ 292,936
Other loans originated:		
Small Business Administration	266	2,329
Taxi medallion	8	11,269
Commercial business	37,936	15,795
Other	700	496
Total other loans originated	38,910	29,889
Other loans purchased:		
Taxi medallion	3,456	12,555
Total other loans purchased	3,456	12,555
Less:		

Principal and other reductions	22,403	30,572
Sales	214	140
At end of period	$ 294,730	$ 304,668

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TROUBLED DEBT RESTRUCUTURED AND NON-PERFORMING ASSETS

Management continues to adhere to the Savings Bank's conservative underwriting standards. The majority of the Savings 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 Savings Bank takes a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with a Savings Bank representative. The Savings Bank has been developing short-term payment plans that enable certain borrowers to bring their loans current. The Savings 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 Savings 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 Savings Bank. This restructure may include making concessions to the borrower that the Savings 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 Savings Bank believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. The Savings 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:

(In thousands)	March 31, 2012	December 31, 2011
Accrual Status:		
Multi-family residential	$ 2,356	$ 9,412
Commercial real estate	2,404	2,413
One-to-four family - mixed-use property	1,084	795
Construction	5,008	5,584
Commercial business and other	2,000	2,000
Total	12,852	20,204
Non-accrual status:		
Commercial real estate	1,388	-
One-to-four family - mixed-use property	170	-
Total	1,558	-
Total performing troubled debt restructured	$ 14,410	$ 20,204

During the three months ended March 31, 2012, three multi-family loans totaling $6.9 million, which were performing TDR at December 31, 2011, were reclassified to non-accrual status as they were no longer performing in accordance with their modified terms. In addition, three loans totaling $1.8 million were restructured as TDR during the three months ended March 31, 2012.

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.

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

(In thousands)	March 31, 2012	December 31, 2011
Loans 90 days or more past due and still accruing:		
Multi-family residential	$ -	$ 6,287
Commercial real estate	-	92
Construction loans	108	-
Total	108	6,379
Non-accrual loans:		
Multi-family residential	25,986	19,946
Commercial real estate	24,876	19,895
One-to-four family - mixed-use property	23,475	28,429
One-to-four family - residential	12,337	12,766
Co-operative apartments	110	152
Construction loans	11,944	14,721
Small Business Administration	592	493
Commercial business and other	20,478	14,660
Total	119,798	111,062
Total non-performing loans	119,906	117,441
Other non-performing assets:		
Real estate acquired through foreclosure	3,604	3,179
Investment securities	3,035	2,562
Total	6,639	5,741
Total non-performing assets	$ 126,545	$ 123,182

Included in non-accrual loans were nine loans totaling $23.2 million and seven loans totaling $17.5 million which were restructured as TDR which were not performing in accordance with their restructured terms at March 31, 2012 and December 31, 2011, respectively.

The Savings Bank's non-performing assets totaled $126.5 million at March 31, 2012, an increase of $3.4 million from $123.2 million at December 31, 2011. Total non-performing assets as a percentage of total assets were 2.90% at March 31, 2012 compared to 2.87% at December 31, 2011. The ratio of allowance for loan losses to total non-performing loans was 26% at March 31, 2012 and December 31, 2011.

The Savings Bank's non-performing loans totaled $119.9 million at March 31, 2012, an increase of $2.5 million from $117.4 million at December 31, 2011. During the three months ended March 31, 2012, 37 loans totaling $29.2 million (net of $0.7 million in charge-offs) were added to non-performing loans, 19 loans totaling $12.0 million were returned to performing status, six loans totaling $1.6 million were paid in full, 16 loans totaling $7.0 million were sold, three loans totaling $1.4 million were transferred to other real estate owned, and charge-offs of $4.7 million were recorded on non-performing loans that were non-performing at the beginning of the first quarter of 2012.

Non-performing investment securities include two pooled trust preferred securities for which we are not receiving payments. At March 31, 2012, these investment securities had a combined amortized cost and market value of $8.3 million and $3.0 million, respectively.

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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:

	March 31, 2012		December 31, 2011	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	$3,654	$ 26,467	$6,341	$ 20,083
Commercial real estate	1,449	10,241	1,797	10,712
One-to-four family - mixed-use property	5,539	14,858	3,027	20,480
One-to-four family - residential	1,488	4,476	1,769	4,699
Co-operative apartments	-	-	-	-
Construction loans	-	-	-	5,065
Small Business Administration	227	15	-	16
Taxi medallion	-	-		71
Commercial business and other	85	2,770	966	1,056
Total delinquent loans	$12,442	$ 58,827	$13,900	$ 62,182

CRITICIZED AND CLASSIFIED ASSETS

Our policy is to review our assets, focusing primarily on the loan portfolio, other real estate owned 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 “Classif Assets,” as deemed necessary. 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. Loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. 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 $290.8 million at March 31, 2012, a decrease of $14.3 million from $305.1 million at December 31, 2011.

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The following table sets forth the Banks' assets designated as Criticized and Classified at March 31, 2012:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 14,592	$ 36,369	$ -	$ -	$ 50,961
Commercial real estate	11,999	39,473	-	-	51,472
One-to-four family - mixed-use property	15,727	30,195	-	-	45,922
One-to-four family - residential	3,494	14,877	-	-	18,371
Co-operative apartments	202	111	-	-	313
Construction loans	2,462	25,311	-	-	27,773
Small Business Administration	758	294	250	-	1,302
Commercial business and other	5,317	29,735	1,169	-	36,221
Total loans	54,551	176,365	1,419	-	232,335
Investment Securities: (1)					
Pooled trust preferred securities	-	15,622	-	-	15,622
Private issue CMO	-	39,235	-	-	39,235
Total investment securities	-	54,857	-	-	54,857
Other Real Estate Owned	-	3,604	-	-	3,604
Total	$ 54,551	$ 234,826	$ 1,419	$ -	$ 290,796

The following table sets forth the Banks' assets designated as Criticized and Classified at December 31, 2011:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 17,135	$ 41,393	$ -	$ -	$ 58,528
Commercial real estate	12,264	41,247	-	-	53,511
One-to-four family - mixed-use property	17,393	33,831	-	-	51,224
One-to-four family - residential	3,127	14,343	-	-	17,470
Co-operative apartments	203	153	-	-	356
Construction loans	2,570	28,555	-	-	31,125
Small Business Administration	666	256	214	-	1,136
Commercial business and other	13,585	17,613	1,169	-	32,367
Total loans	66,943	177,391	1,383	-	245,717
Investment Securities: (1)					
Pooled trust preferred securities	-	15,344	-	-	15,344
Private issue CMO	-	40,905	-	-	40,905
Total investment securities	-	56,249	-	-	56,249

Other Real Estate Owned	-	3,179	-	-	3,179
Total	$ 66,943	$ 236,819	$1,383	$-	$305,145

(1) Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of $42.7 million and $41.1 million at March 31, 2012 and December 31, 2011, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Banks' securities. Flushing Financial Corporation had two private issue trust preferred securities classified as Substandard with a combined market value of $0.8 million at March 31, 2012 and December 31, 2011.

On a quarterly basis, all collateral dependant loans that are designated as Special Mention, 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 dependant impaired loans are then compared to the loans updated fair value. The balance which exceeds fair value is generally charged-off to the allowance for loan losses.

We designate investment securities as Substandard when the investment grade rating by one or more of the rating agencies is below investment grade. We have designated a total of 20 investment securities that are held at the Savings Bank as Substandard at March 31, 2012. Our classified investment securities at March 31, 2012 held by the Savings Bank include 16 private issue CMOs rated below investment grade by one or more of the rating agencies, three issues of pooled trust preferred securities and one private issue trust preferred security. The Investment Securities which are classified as Substandard at March 31, 2012 are securities that were rated investment grade when we purchased them. These securities have each been subsequently downgraded by at least one rating agency to below investment grade. Through March 31, 2012, two of the pooled trust preferred securities and eight private issue CMOs are not paying principal and interest as scheduled. We test each of these securities quarterly for impairment, through an independent third party.

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), changes in the composition and volume of the portfolio, collection policies and experience, trends in the volume of non-accrual and classified loans and local and national economic conditions. 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 incurred total net charge-offs of $5.7 million and $5.3 million during the three months ended March 31, 2012 and 2011, respectively. The national and regional economies were generally considered to be in a recession from December 2007 through the middle of 2009. This has resulted in increased unemployment and declining property values, although the property value declines in the New York City metropolitan area have not been as great as many other areas of the country. While the national and regional economies have shown signs of improvement since the second half of 2009, unemployment has remained at elevated levels. The deterioration in the economy has resulted in an elevated level of non-performing loans, which totaled $119.9 million at March 31, 2012 and $112.1 million at December 31, 2011. The Savings Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At March 31, 2012, the average outstanding principal balance of our non-performing loans was 62.6% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. A provision for loan losses of $6.0 million and $5.0 million was recorded for three months ended March 31, 2012 and 2011, respectively.

We review our loan portfolio by separate categories with 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. Impaired loans are segregated and reviewed separately. All non-accrual loans and TDRs are considered impaired. Impaired loans secured by real estate are reviewed based on the fair value of their collateral. In connection with the determination of the allowance, the market value of collateral ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage 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 loans updated fair value. The balance which exceeds fair value is generally charged-off. We do not allocate additional reserves to loans which have been written down to their fair value. 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 mortgage 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. Loans classified as TDR which are performing in accordance with their modified terms are evaluated based on the projected discounted cash flow of the restructured loan at the loans effective interest rate prior to restructuring. A portion of the allowance for loan losses is allocated in the amount by which the recorded investment in the TDR exceeds the discounted cash flow. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. A portion of the allowance is allocated to non-collateralized loans based on these estimates. Based on the review of impaired loans, which includes loans classified as TDR, a portion of the allowance

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Management's Discussion and Analysis of
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was allocated to impaired loans in the amount of $1.0 million and $4.2 million at March 31, 2012 and December 31, 2011, respectively.

General provisions are established against performing loans in our portfolio in amounts deemed prudent by management. A portion of the allowance is allocated to the remaining portfolio based on historical loss experience. The historical loss period used for this allocation was three years. In addition, a portion of the allowance is allocated based on current economic conditions, trends in delinquency and classified loans and concentrations in the loan portfolio. Based on these reviews, management concluded the general portion of the allowance should be $29.6 million and $26.1 million at March 31, 2012 and December 31, 2011, respectively, resulting in a total allowance of $30.6 million and $30.3 million at March 31, 2012 and December 31, 2011, respectively. The Board of Directors reviews and approves the adequacy of the allowance for loan losses on a quarterly basis. Management has concluded and the Board of Directors has concurred, that at March 31, 2012, the allowance was sufficient to absorb losses inherent in our loan portfolio.

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

(Dollars in thousands)	For the three months ended March 31, 2012	2011
Balance at beginning of period	$ 30,344	$ 27,699
Provision for loan losses	6,000	5,000
Loans charged-off:		
Multi-family residential	(1,061)	(918)
Commercial real estate	(1,780)	(1,950)
One-to-four family – mixed-use property	(1,468)	(216)
One-to-four family – residential	(826)	(1,474)
Co-operative apartments	(42)	-
Construction	(234)	-
Small Business Administration	(113)	(327)
Commercial business and other	(495)	(435)
Total loans charged-off	(6,019)	(5,320)
Recoveries:		
Multi-family residential	57	1
Commercial real estate	70	-
One-to-four family – mixed-use property	56	43
One-to-four family – residential	1	-
Small Business Administration	9	4
Commercial business and other	100	3
Total recoveries	293	51
Net charge-offs	(5,726)	(5,269)

Balance at end of period	$	30,618		$	27,430	
Ratio of net charge-offs during the period to average loans outstanding during the period		0.72	%		0.65	%
Ratio of allowance for loan losses to gross loans at end of period		0.95	%		0.84	%
Ratio of allowance for loan losses to non-performing assets at end of period		24.20	%		22.35	%
Ratio of allowance for loan losses to non-performing loans at end of period		25.53	%		23.60	%

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 March 31, 2012, 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, 2011.

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 March 31, 2012:

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
January 1 to January 31, 2012	-	$ -	-	737,962
February 1 to February 29, 2012	-	-	-	737,962
March 1 to March 31, 2012	97,200	13.19	97,200	640,762
Total	97,200	$ 13.19	97,200	

On September 28, 2011, the Company announced the authorization by the Board of Directors of a new common stock repurchase program which authorizes the purchase of up to 1,000,000 shares of the Company’s common stock. During the three months ended March 31, 2012, the Company repurchased 97,200 shares of the Company’s common stock at an average cost of $13.19 per share. At March 31, 2012, 640,762 shares remain to be repurchased under the current 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.

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	By-Laws of Flushing Financial Corporation (1)
4.1	Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent (5)
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 (filed 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 (filed herwith)
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished 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 Exhibits filed with Form 8-K filed September 26, 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.
(6) Incorporated by reference to Exhibit filed with Form 10-K filed March 15, 2012.

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: May 10, 2012	By: /s/John R. Buran John R. Buran President and Chief Executive Officer
Dated: May 10, 2012	By: /s/David W. Fry David W. Fry Executive Vice President, Treasurer and Chief Financial Officer

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

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