FLUSHING FINANCIAL CORP
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3209278

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

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant's telephone number, including area code)

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

(Former address of Principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). X Yes No

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

Large accelerated filer __ Accelerated filer X

Non-accelerated filer __ Smaller reporting company __

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

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

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(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

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

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

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

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

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

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

2. Use of Estimates

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

3. Earnings Per Share

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

4. Debt and Equity Securities

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

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

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

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

Amortized Cost	Fair Value	Gross Unrealized	Gross Unrealized

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

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

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

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

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Corporate:

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

Municipal Securities:

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

Other Securities:

The unrealized losses in Other securities at September 30, 2015, consist of a loss on one single issuer trust preferred security and five Collateralized Loan Obligation (“CLO”) securities. The unrealized loss on the single issuer trust preferred was caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. This security is currently rated below investment grade. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company’s investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell this security before recovery of the security’s amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this investment to be other-than-temporarily impaired at September 30, 2015.

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

REMIC and CMO:

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

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GNMA:

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

FNMA:

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

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

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

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

5. Loans

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

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

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

The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Appraisals are obtained and/or updated internal evaluations are prepared as soon as practical, and before the loan becomes 90 days delinquent. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	At September 30, 2015									
(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	Tota
Financing Receivables:										
Ending Balance	$2,043,740	$857,806	$568,401	$191,430	$9,122	$5,671	$10,540	$21,025	$479,085	$4,1
Ending balance: individually evaluated for impairment	$9,158	$5,233	$12,513	$13,113	$-	$-	$329	$2,129	$7,319	$49.
Ending balance: collectively evaluated for impairment	$2,034,582	$852,573	$555,888	$178,317	$9,122	$5,671	$10,211	$18,896	$471,766	$4,1

	At December 31, 2014									
(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family- residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Financing Receivables:										
Ending Balance	$1,923,460	$621,569	$573,779	$187,572	$9,835	$5,286	$7,134	$22,519	$447,500	$3,79
Ending balance: individually evaluated	$13,260	$9,473	$15,120	$13,170	$-	$-	$-	$-	$5,492	$56,5

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Loans held for sale

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

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

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

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

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

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

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

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

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

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

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

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

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7. Other Real Estate Owned

The following are changes in OREO during the periods indicated:

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

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

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

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

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

8. Repurchase Agreements

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

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

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

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

9. Stock-Based Compensation

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

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company’s stock price, the risk-free interest rate over the options’ expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. There were 2,800 restricted stock units granted during the three months ended September 30, 2014. There were no restricted stock awards issued during the three months ended September 30, 2015. During the nine months ended September 30, 2015 and 2014, the Company granted 318,120 and 266,895 restricted stock units, respectively. There were no stock options granted during the three and nine months ended September 30, 2015 and 2014.

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

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

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

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

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

	Shares	Weighted-	Weighted-Average	Aggregate

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

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

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

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

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

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

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

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

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

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

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

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10. Pension and Other Postretirement Benefit Plans

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

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

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

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

11. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in unrealized gains held at period end	$ -	$ 212	$ -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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