

FLUSHING FINANCIAL CORP  
Form 10-Q  
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2016**

Commission file number **001-33013**

**FLUSHING FINANCIAL CORPORATION**

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

**Delaware**

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

**11-3209278**

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

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

*(Address of principal executive offices)*

**(718) 961-5400**

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of April 30, 2016 was 28,969,566.

**TABLE OF CONTENTS**

	PAGE
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. Financial Statements - (Unaudited)</u></b>	
<u>Consolidated Statements of Financial Condition</u>	<u>1</u>
<u>Consolidated Statements of Income</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>41</u></b>
<b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>55</u></b>
<b><u>ITEM 4. Controls and Procedures</u></b>	<b><u>55</u></b>
<b><u>PART II — OTHER INFORMATION</u></b>	
<b><u>ITEM 1. Legal Proceedings</u></b>	<b><u>56</u></b>
<b><u>ITEM 1A. Risk Factors</u></b>	<b><u>56</u></b>
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>56</u></b>
<b><u>ITEM 3. Defaults Upon Senior Securities</u></b>	<b><u>56</u></b>
<b><u>ITEM 4. Mine Safety Disclosures</u></b>	<b><u>56</u></b>
<b><u>ITEM 5. Other Information</u></b>	<b><u>56</u></b>
<b><u>ITEM 6. Exhibits</u></b>	<b><u>57</u></b>
<b><u>SIGNATURES</u></b>	<b><u>58</u></b>

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

(Unaudited)

**Item 1. Financial Statements**

(Dollars in thousands, except per share data)	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and due from banks	\$51,417	\$42,363
Securities held-to-maturity:		
Other securities (none pledged) (fair value of \$7,885 and \$6,180 at March 31, 2016 and December 31, 2015, respectively)	7,885	6,180
Securities available for sale:		
Mortgage-backed securities (including assets pledged of \$523,749 and \$496,121 at March 31, 2016 and December 31, 2015, respectively; \$2,403 and \$2,527 at fair value pursuant to the fair value option at March 31, 2016 and December 31, 2015, respectively.)	668,412	668,740
Other securities (including assets pledged of \$74,885 and none at March 31, 2016 and December 31, 2015, respectively; \$28,361 and \$28,205 at fair value pursuant to the fair value option at March 31, 2016 and December 31, 2015, respectively)	372,851	324,657
Loans:		
Multi-family residential	2,039,794	2,055,228
Commercial real estate	1,058,028	1,001,236
One-to-four family mixed-use property	571,846	573,043
One-to-four family residential	191,158	187,838
Co-operative apartments	8,182	8,285
Construction	7,472	7,284
Small Business Administration	14,701	12,194
Taxi medallion	20,757	20,881
Commercial business and other	531,322	506,622
Net unamortized premiums and unearned loan fees	15,281	15,368
Allowance for loan losses	(21,993 )	(21,535 )
Net loans	4,436,548	4,366,444
Interest and dividends receivable	19,369	18,937
Bank premises and equipment, net	25,130	25,622
Federal Home Loan Bank of New York stock	53,368	56,066

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Bank owned life insurance	114,405	115,536
Goodwill	16,127	16,127
Other assets	47,555	63,962
Total assets	\$5,813,067	\$5,704,634
<b>LIABILITIES</b>		
Due to depositors:		
Non-interest bearing	\$280,450	\$269,469
Interest-bearing:		
Certificate of deposit accounts	1,362,062	1,403,302
Savings accounts	268,057	261,748
Money market accounts	485,774	472,489
NOW accounts	1,610,932	1,448,695
Total interest-bearing deposits	3,726,825	3,586,234
Mortgagors' escrow deposits	56,612	36,844
Borrowed funds (\$27,977 and \$29,018 at fair value pursuant to the fair value option at March 31, 2016 and December 31, 2015, respectively)	1,074,789	1,155,676
Securities sold under agreements to repurchase	116,000	116,000
Other liabilities	70,612	67,344
Total liabilities	5,325,288	5,231,567
Commitments and contingencies (Note 5)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock (\$0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at March 31, 2016 and December 31, 2015; 28,986,566 shares and 28,830,558 shares outstanding at March 31, 2016 and December 31, 2015, respectively)	315	315
Additional paid-in capital	211,735	210,652
Treasury stock, at average cost (2,544,029 shares and 2,700,037 shares at March 31, 2016 and December 31, 2015, respectively)	(46,307 )	(48,868 )
Retained earnings	320,725	316,530
Accumulated other comprehensive income (loss), net of taxes	1,311	(5,562 )
Total stockholders' equity	487,779	473,067
Total liabilities and stockholders' equity	\$5,813,067	\$5,704,634

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

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

(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended March 31,	
	2016	2015
Interest and dividend income		
Interest and fees on loans	\$47,558	\$43,534
Interest and dividends on securities:		
Interest	6,592	5,870
Dividends	119	118
Other interest income	94	21
Total interest and dividend income	54,363	49,543
Interest expense		
Deposits	7,973	7,458
Other interest expense	5,257	4,531
Total interest expense	13,230	11,989
Net interest income	41,133	37,554
Benefit for loan losses	-	(734 )
Net interest income after benefit for loan losses	41,133	38,288
Non-interest income		
Banking services fee income	976	884
Net gain on sale of loans	341	2
Net loss from fair value adjustments	(987 )	(595 )
Federal Home Loan Bank of New York stock dividends	623	518
Gain from life insurance proceeds	411	-
Bank owned life insurance	695	717
Other income	481	404
Total non-interest income	2,540	1,930
Non-interest expense		
Salaries and employee benefits	16,261	14,666
Occupancy and equipment	2,370	2,713
Professional services	2,150	1,779
FDIC deposit insurance	904	749
Data processing	1,091	1,075
Depreciation and amortization	1,032	668
Other real estate owned/foreclosure expense	153	520

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Other operating expenses	4,536	3,769
Total non-interest expense	28,497	25,939
Income before income taxes	15,176	14,279
Provision for income taxes		
Federal	4,747	4,252
State and local	868	1,294
Total taxes	5,615	5,546
Net income	\$9,561	\$8,733
Basic earnings per common share	\$0.33	\$0.30
Diluted earnings per common share	\$0.33	\$0.30
Dividends per common share	\$0.17	\$0.16

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

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

(Unaudited)

(In thousands)	For the three months ended March 31,	
	2016	2015
Net income	\$9,561	\$8,733
Other comprehensive income, net of tax:		
Amortization of actuarial losses, net of taxes of (\$83) and (\$133) for the three months ended March 31, 2016 and 2015, respectively	109	174
Amortization of prior service credits, net of taxes of \$5 and \$5 for the three months ended March 31, 2016 and 2015, respectively	(6 )	(6 )
Net unrealized gains on securities, net of taxes of (\$5,028) and (\$3,293) for the three months ended March 31, 2016 and 2015, respectively	6,770	4,332
Total other comprehensive income, net of tax	6,873	4,500
Comprehensive income	\$16,434	\$13,233

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)

(In thousands)	For the three months ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$9,561	\$8,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Benefit for loan losses	-	(734 )
Depreciation and amortization of bank premises and equipment	1,032	668
Amortization of premium, net of accretion of discount	2,189	2,143
Net loss from fair value adjustments	987	595
Net gain from sale of loans	(341 )	(2 )
Income from bank owned life insurance	(695 )	(717 )
Gain from life insurance proceeds	(411 )	-
Stock-based compensation expense	2,989	2,778
Deferred compensation	(1,774 )	(1,392 )
Excess tax benefit from stock-based payment arrangements	(303 )	(318 )
Deferred income tax provision	1,570	1,925
Decrease in other liabilities	(2,006 )	(4,403 )
Decrease in other assets	3,798	3,336
Net cash provided by operating activities	16,596	12,612
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of bank premises and equipment	(540 )	(5,229 )
Net (purchases) redemptions of Federal Home Loan Bank of New York shares	2,698	(3,564 )
Purchases of securities held-to-maturity	(2,330 )	-
Proceeds from maturities of securities held-to-maturity	2,000	-
Purchases of securities available for sale	(58,472 )	(48,962 )
Proceeds from maturities and prepayments of securities available for sale	21,316	31,019
Proceeds from bank owned life insurance	2,237	-
Net originations of loans	(53,836 )	(59,071 )
Purchases of loans	(12,000 )	(111,296 )
Proceeds from sale of real estate owned	853	1,594
Proceeds from sale of loans	5,915	1,522
Net cash used in investing activities	(92,159 )	(193,987 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Net increase (decrease) in non-interest bearing deposits	10,981	(5,750 )
Net increase in interest-bearing deposits	140,370	84,816
Net increase in mortgagors' escrow deposits	19,768	18,222
Net proceeds (repayments) from short-term borrowed funds	(90,000 )	41,500
Proceeds from long-term borrowings	81,758	47,706
Repayment of long-term borrowings	(71,727 )	(10,000 )
Purchases of treasury stock	(1,885 )	(3,876 )
Excess tax benefit from stock-based payment arrangements	303	318
Proceeds from issuance of common stock upon exercise of stock options	19	-
Cash dividends paid	(4,970 )	(4,722 )
Net cash provided by financing activities	84,617	168,214
Net increase (decrease) in cash and cash equivalents	9,054	(13,161 )
Cash and cash equivalents, beginning of period	42,363	34,265
Cash and cash equivalents, end of period	\$51,417	\$21,104
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	\$12,921	\$11,948
Income taxes paid	1,000	1,596
Taxes paid if excess tax benefits were not tax deductible	1,303	1,914
Non-cash activities:		
Securities purchased not yet settled	1,375	9,877
Loans transferred to Other Real Estate Owned	533	483
Loans provided for the sale of Other Real Estate Owned	-	175

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

**PART I – FINANCIAL INFORMATION****FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity****For the three months ended March 31, 2016 and 2015**

(Unaudited)

(Dollars in thousands, except per share data)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	\$473,067	\$ 315	\$210,652	\$316,530	\$(48,868)	\$ (5,562 )
Net Income	9,561	-	-	9,561	-	-
Award of common shares released from Employee Benefit Trust (129,831 shares)	1,851	-	1,851	-	-	-
Vesting of restricted stock unit awards (245,111 shares)	-	-	(4,047 )	(396 )	4,443	-
Exercise of stock options (18,200 shares)	19	-	16	-	3	-
Stock-based compensation expense	2,960	-	2,960	-	-	-
Stock-based income tax benefit	303	-	303	-	-	-
Purchase of treasury shares (15,300 shares)	(303 )	-	-	-	(303 )	-
Repurchase of shares to satisfy tax obligation (76,656 shares)	(1,582 )	-	-	-	(1,582 )	-
Dividends on common stock (\$0.17 per share)	(4,970 )	-	-	(4,970 )	-	-
Other comprehensive income	6,873	-	-	-	-	6,873
Balance at March 31, 2016	\$487,779	\$ 315	\$211,735	\$320,725	\$(46,307)	\$ 1,311
Balance at December 31, 2014	\$456,247	\$ 315	\$206,437	\$289,623	\$(37,221)	\$ (2,907 )
Net Income	8,733	-	-	8,733	-	-
Award of common shares released from Employee Benefit Trust (136,114 shares)	1,917	-	1,917	-	-	-
Vesting of restricted stock unit awards (204,110 shares)	-	-	(3,074 )	(503 )	3,577	-
Exercise of stock options (1,100 shares)	-	-	1	-	(1 )	-
Stock-based compensation expense	2,769	-	2,769	-	-	-
Stock-based income tax benefit	318	-	318	-	-	-
Purchase of treasury shares (142,315 shares)	(2,766 )	-	-	-	(2,766 )	-
	(1,110 )	-	-	-	(1,110 )	-

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Repurchase of shares to satisfy tax obligation (58,461 shares)							
Dividends on common stock (\$0.16 per share)	(4,722 )	-	-	(4,722 )	-	-	-
Other comprehensive income	4,500	-	-	-	-	-	4,500
Balance at March 31, 2015	\$465,886	\$ 315	\$208,368	\$293,131	\$(37,521)	\$	1,593

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

- 5 -

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

**1. Basis of Presentation**

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

**2. Use of Estimates**

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

**3. Earnings Per Share**

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

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

(Unaudited)

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

(Dollars in thousands, except per share data)	For the three months ended			
	March 31,			
	2016	2015		
Net income, as reported	\$9,561	\$8,733		
Divided by:				
Weighted average common shares outstanding	29,097	29,397		
Weighted average common stock equivalents	14	22		
Total weighted average common shares outstanding and common stock equivalents	29,111	29,419		
Basic earnings per common share	\$0.33	\$0.30		
Diluted earnings per common share <sup>(1)</sup>	\$0.33	\$0.30		
Dividend payout ratio	51.5	%	53.3	%

(1) For the three months ended March 31, 2016 and 2015, there were no stock options that were anti-dilutive.

**4. Debt and Equity Securities**

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

The Company did not hold any trading securities at March 31, 2016 and December 31, 2015. Securities available for sale are recorded at fair value. Securities held-to-maturity are recorded at amortized cost.

The following table summarizes the Company's portfolio of securities held-to-maturity at March 31, 2016:

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
(In thousands)				
Securites held-to-maturity:				
Municipals	\$7,885	\$7,885	\$ -	\$ -
Total	\$7,885	\$7,885	\$ -	\$ -

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

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

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

(Unaudited)

The following table summarizes the Company’s portfolio of securities available for sale at March 31, 2016:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Corporate	\$ 115,993	\$ 111,399	\$ 592	\$ 5,186
Municipals	127,023	131,869	4,846	-
Mutual funds	21,507	21,507	-	-
Collateralized loan obligations	101,613	100,926	33	720
Other	7,154	7,150	-	4
Total other securities	373,290	372,851	5,471	5,910
REMIC and CMO	462,677	470,194	8,107	590
GNMA	10,832	11,122	325	35
FNMA	167,229	170,511	3,543	261
FHLMC	16,351	16,585	234	-
Total mortgage-backed securities	657,089	668,412	12,209	886
Total securities available for sale	\$ 1,030,379	\$ 1,041,263	\$ 17,680	\$ 6,796

Mortgage-backed securities shown in the table above includes one private issue collateralized mortgage obligation (“CMO”) that is collateralized by commercial real estate mortgages with amortized cost and market value of \$7.6 million at March 31, 2016.

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

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Corporate	\$ 115,976	\$ 111,674	\$ 134	\$ 4,436
Municipals	127,696	131,583	3,887	-
Mutual funds	21,290	21,290	-	-
Collateralized loan obligations	53,225	52,898	-	327
Other	7,214	7,212	-	2
Total other securities	325,401	324,657	4,021	4,765
REMIC and CMO	469,987	469,936	3,096	3,147
GNMA	11,635	11,798	302	139
FNMA	170,327	170,057	1,492	1,762
FHLMC	16,961	16,949	87	99
Total mortgage-backed securities	668,910	668,740	4,977	5,147
Total securities available for sale	\$ 994,311	\$ 993,397	\$ 8,998	\$ 9,912

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

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

(Unaudited)

The following table details the amortized cost and fair value of the Company's securities classified as held-to-maturity at March 31, 2016, by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$6,845	\$6,845
Due after one year through five years	1,040	1,040
Total securities held-to-maturity	\$7,885	\$7,885

The amortized cost and fair value of the Company's securities, classified as available for sale at March 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$5,993	\$6,003
Due after one year through five years	1,825	1,855
Due after five years through ten years	74,821	74,261
Due after ten years	269,144	269,225
Total other securities	351,783	351,344
Mutual funds	21,507	21,507
Mortgage-backed securities	657,089	668,412
Total securities available for sale	\$1,030,379	\$1,041,263

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2016:

		Total		Less than 12 months		12 months or more	
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Corporate	11	\$74,813	\$ 5,186	\$56,128	\$ 3,871	\$18,685	\$ 1,315
Collateralized loan obligations	9	72,328	720	72,328	720	-	-
Other	1	296	4	-	-	296	4
Total other securities	21	147,437	5,910	128,456	4,591	18,981	1,319
REMIC and CMO	10	49,379	590	13,733	60	35,646	530
GNMA	1	6,786	35	-	-	6,786	35
FNMA	4	26,415	261	-	-	26,415	261
Total mortgage-backed securities	15	82,580	886	13,733	60	68,847	826
Total securities available for sale	36	\$230,017	\$ 6,796	\$142,189	\$ 4,651	\$87,828	\$ 2,145

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

(Unaudited)

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015:

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

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

The Company reviewed each investment that had an unrealized loss at March 31, 2016 and December 31, 2015. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax.

The unrealized losses in total securities available for sale at March 31, 2016 and December 31, 2015 were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2016 and December 31, 2015.

We did not sell any securities during the three months ended March 31, 2016 and 2015.

## **5. Loans**

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

## **PART I – FINANCIAL INFORMATION**

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

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

(Unaudited)

The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is established through 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, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm's length transaction. The balance which exceeds fair value is generally charged-off. In addition, taxi medallion loans on accrual status with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the ALLL in the amount of the excess of the loan-to-value over the loan's principal balance. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

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

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

- 11 -

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

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

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

As of March 31, 2016, we utilized recent third party appraisals of the collateral to measure impairment for \$27.3 million, or 80.8%, of collateral dependent impaired loans, and used internal evaluations of the property's value for \$6.5 million, or 19.2%, of collateral dependent impaired loans.

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

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

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At March 31, 2016, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The Company did not modify and classify any loans as TDR during the three months ended March 31, 2016.

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

(Dollars in thousands)	For the three months ended		Modification description
	Number	Balance	
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 to a TDR, presented in the table above, was unchanged as there was no principal forgiven in this modification.

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

(Unaudited)

The 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)	March 31, 2016		December 31, 2015	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	9	\$ 2,611	9	\$ 2,626
Commercial real estate	3	2,358	3	2,371
One-to-four family - mixed-use property	6	2,042	6	2,052
One-to-four family - residential	1	341	1	343
Small business administration	1	32	1	34
Commercial business and other	4	2,038	4	2,083
Total performing troubled debt restructured	24	\$ 9,422	24	\$ 9,509

During the three months ended March 31, 2016 and 2015, there were no TDR loans transferred to non-performing status.

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)	March 31, 2016		December 31, 2015	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Multi-family residential	1	\$ 385	1	\$ 391
Total troubled debt restructurings that subsequently defaulted	1	\$ 385	1	391

- 13 -

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

(Unaudited)

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

(In thousands)	March 31, 2016	December 31, 2015
Loans ninety days or more past due and still accruing:		
Multi-family residential	\$792	\$233
Commercial real estate	1,083	1,183
One-to-four family - mixed-use property	743	611
One-to-four family - residential	13	13
Construction	570	1,000
Commercial Business and other	-	220
Total	3,201	3,260
Non-accrual mortgage loans:		
Multi-family residential	3,518	3,561
Commercial real estate	3,295	2,398
One-to-four family - mixed-use property	5,519	5,952
One-to-four family - residential	8,861	10,120
Total	21,193	22,031
Non-accrual non-mortgage loans:		
Small business administration	201	218
Taxi Medallion	196	-
Commercial business and other	511	568
Total	908	786
Total non-accrual loans	22,101	22,817
Total non-accrual loans and loans ninety days or more past due and still accruing	\$25,302	\$26,077

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

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 March 31, 2016 2015 (In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$540	\$691
Less: Interest income included in the results of operations	123	148
Total foregone interest	\$417	\$543

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

(Unaudited)

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

(In thousands)	March 31, 2016		Greater than 90 Days	Total Past Due	Current	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due				
Multi-family residential	\$6,644	\$445	\$4,310	\$11,399	\$2,028,395	\$2,039,794
Commercial real estate	767	381	4,378	5,526	1,052,502	1,058,028
One-to-four family - mixed-use property	8,961	326	6,262	15,549	556,297	571,846
One-to-four family - residential	2,711	276	8,677	11,664	179,494	191,158
Co-operative apartments	-	-	-	-	8,182	8,182
Construction loans	-	-	570	570	6,902	7,472
Small Business Administration	37	-	201	238	14,463	14,701
Taxi medallion	860	-	196	1,056	19,701	20,757
Commercial business and other	-	1	353	354	530,968	531,322
Total	\$19,980	\$1,429	\$24,947	\$46,356	\$4,396,904	\$4,443,260

(In thousands)	December 31, 2015		Greater than 90 Days	Total Past Due	Current	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due				
Multi-family residential	\$9,421	\$804	\$3,794	\$14,019	\$2,041,209	\$2,055,228
Commercial real estate	2,820	153	3,580	6,553	994,683	1,001,236
One-to-four family - mixed-use property	8,630	1,258	6,563	16,451	556,592	573,043
One-to-four family - residential	4,261	154	10,134	14,549	173,289	187,838
Co-operative apartments	-	-	-	-	8,285	8,285

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Construction loans	-	-	1,000	1,000	6,284	7,284
Small Business Administration	42	-	218	260	11,934	12,194
Taxi medallion	-	-	-	-	20,881	20,881
Commercial business and other	-	2	228	230	506,392	506,622
Total	\$25,174	\$2,371	\$25,517	\$53,062	\$4,319,549	\$4,372,611

- 15 -

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

(Unaudited)

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

March 31, 2016

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	\$ 6,718	\$ 4,239	\$ 4,227	\$ 1,227	\$ 50	\$ 262	\$ 343	\$ 4,469	\$ -	\$ 21,535
Charge-off's	(42 )	-	(14 )	(66 )	-	-	-	(25 )	-	(147 )
Recoveries	13	-	187	365	-	31	-	9	-	605
Provision	(391 )	(38 )	(893 )	(484 )	5	(24 )	(8 )	138	1,695	-
Ending balance	\$ 6,298	\$ 4,201	\$ 3,507	\$ 1,042	\$ 55	\$ 269	\$ 335	\$ 4,591	\$ 1,695	\$ 21,993
Ending balance: individually evaluated for impairment	\$ 247	\$ 171	\$ 491	\$ 50	\$ -	\$ 47	\$ 325	\$ 108	\$ -	\$ 1,439
Ending balance: collectively evaluated for impairment	\$ 6,051	\$ 4,030	\$ 3,016	\$ 992	\$ 55	\$ 222	\$ 10	\$ 4,483	\$ 1,695	\$ 20,554

March 31, 2015

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:									
Beginning balance	\$ 8,827	\$ 4,202	\$ 5,840	\$ 1,690	\$ 42	\$ 279	\$ 11	\$ 4,205	\$ 25,096
Charge-off's	(97 )	(18 )	(78 )	(153 )	-	-	-	(51 )	(397 )

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Recoveries	23	72	3	-	-	20	-	8	126
Provision (benefit)	(124 )	(354 )	(336 )	(72 )	(19 )	(33 )	-	204	(734 )
Ending balance	\$ 8,629	\$ 3,902	\$ 5,429	\$ 1,465	\$ 23	\$ 266	\$ 11	\$ 4,366	\$ 24,091
Ending balance: individually evaluated for impairment	\$ 267	\$ 19	\$ 566	\$ 54	\$ -	\$ -	\$ -	\$ 139	\$ 1,045
Ending balance: collectively evaluated for impairment	\$ 8,362	\$ 3,883	\$ 4,863	\$ 1,411	\$ 23	\$ 266	\$ 11	\$ 4,227	\$ 23,046

- 16 -

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

(Unaudited)

The following tables show the manner in which loans were evaluated for impairment at the periods indicated:

At March 31, 2016

(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	\$2,039,794	\$1,058,028	\$571,846	\$191,158	\$8,182	\$7,472	\$14,701	\$20,757	\$531,322	\$4,443,260
Ending balance: individually evaluated for impairment	\$8,402	\$7,560	\$11,485	\$11,305	\$-	\$570	\$402	\$2,110	\$4,366	\$46,200
Ending balance: collectively evaluated for impairment	\$2,031,392	\$1,050,468	\$560,361	\$179,853	\$8,182	\$6,902	\$14,299	\$18,647	\$526,956	\$4,397,060

At December 31, 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
Financing Receivables:										
Ending Balance	\$2,055,228	\$1,001,236	\$573,043	\$187,838	\$8,285	\$7,284	\$12,194	\$20,881	\$506,622	\$4,372,611

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Ending  
balance:  
individually \$8,047 \$6,183 \$12,828 \$12,598 \$- \$1,000 \$310 \$2,118 \$4,716 \$47,800  
evaluated for  
impairment

Ending  
balance:  
collectively \$2,047,181 \$995,053 \$560,215 \$175,240 \$8,285 \$6,284 \$11,884 \$18,763 \$501,906 \$4,324,811  
evaluated for  
impairment

- 17 -

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

(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses for impaired loans at the periods indicated:

	March 31, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)						
With no related allowance recorded:						
Mortgage loans:						
Multi-family residential	\$6,108	\$6,818	\$ -	\$5,742	\$6,410	\$ -
Commercial real estate	5,202	5,259	-	3,812	3,869	-
One-to-four family mixed-use property	8,754	9,698	-	10,082	11,335	-
One-to-four family residential	10,964	12,558	-	12,255	14,345	-
Co-operative apartments	-	-	-	-	-	-
Construction	570	570	-	1,000	1,000	-
Non-mortgage loans:						
Small Business Administration	252	252	-	276	276	-
Taxi Medallion	-	-	-	-	-	-
Commercial Business and other	2,374	2,744	-	2,682	5,347	-
<b>Total loans with no related allowance recorded</b>	<b>34,224</b>	<b>37,899</b>	<b>-</b>	<b>35,849</b>	<b>42,582</b>	<b>-</b>
With an allowance recorded:						
Mortgage loans:						
Multi-family residential	2,294	2,294	247	2,305	2,305	252
Commercial real estate	2,358	2,358	171	2,371	2,371	180
One-to-four family mixed-use property	2,731	2,731	491	2,746	2,746	502
One-to-four family residential	341	341	50	343	343	51
Co-operative apartments	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Non-mortgage loans:						
Small Business Administration	150	150	47	34	34	-
Taxi Medallion	2,110	2,110	325	2,118	2,118	333
Commercial Business and other	1,992	1,992	108	2,034	2,034	112

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Total loans with an allowance recorded	11,976	11,976	1,439	11,951	11,951	1,430
Total Impaired Loans:						
Total mortgage loans	\$39,322	\$42,627	\$ 959	\$40,656	\$44,724	\$ 985
Total non-mortgage loans	\$6,878	\$7,248	\$ 480	\$7,144	\$9,809	\$ 445

- 18 -

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

(Unaudited)

The following table shows our average recorded investment and interest income recognized for impaired loans for the periods indicated:

	March 31, 2016		March 31, 2015	
	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized
	Investmen	Investmen	Investmen	Investmen
	Investmen	Recognized	Investmen	Recognized
	(In thousands)			
With no related allowance recorded:				
Mortgage loans:				
Multi-family residential	\$5,925	\$ 17	\$10,905	\$ 56
Commercial real estate	4,507	12	6,567	39
One-to-four family mixed-use property	9,418	33	11,749	57
One-to-four family residential	11,610	27	13,210	25
Co-operative apartments	-	-	-	-
Construction	785	-	-	-
Non-mortgage loans:				
Small Business Administration	264	3	159	1
Taxi Medallion	-	-	-	-
Commercial Business and other	2,528	46	4,511	69
Total loans with no related allowance recorded	35,037	138	47,101	247
With an allowance recorded:				
Mortgage loans:				
Multi-family residential	2,300	29	2,597	32
Commercial real estate	2,365	28	1,458	7
One-to-four family mixed-use property	2,739	38	3,085	42
One-to-four family residential	342	3	353	4
Co-operative apartments	-	-	-	-
Construction	-	-	-	-
Non-mortgage loans:				
Small Business Administration	92	2	21	1
Taxi Medallion	2,114	15	-	-
Commercial Business and other	2,013	25	2,660	35

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Total loans with an allowance recorded	11,965	140	10,174	121
Total Impaired Loans:				
Total mortgage loans	\$39,991	\$ 187	\$49,924	\$ 262
Total non-mortgage loans	\$7,011	\$ 91	\$7,351	\$ 106

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.” Loans that are non-accrual are designated as Substandard, Doubtful or Loss. 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. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.

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

(Unaudited)

The following table sets forth the recorded investment in loans designated as Criticized or Classified at the periods indicated:

(In thousands)	March 31, 2016				Total
	Special Mention	Substandard	Doubtful	Loss	
Multi-family residential	\$8,505	\$ 5,790	\$ -	\$ -	\$14,295
Commercial real estate	1,500	5,203	-	-	6,703
One-to-four family - mixed-use property	2,716	9,657	-	-	12,373
One-to-four family - residential	1,538	10,964	-	-	12,502
Co-operative apartments	-	-	-	-	-
Construction loans	-	570	-	-	570
Small Business Administration	504	326	-	-	830
Taxi Medallion	-	2,110	-	-	2,110
Commercial business and other	147	2,803	-	-	2,950
Total loans	\$14,910	\$ 37,423	\$ -	\$ -	\$52,333

(In thousands)	December 31, 2015				Total
	Special Mention	Substandard	Doubtful	Loss	
Multi-family residential	\$4,361	\$ 5,421	\$ -	\$ -	\$9,782
Commercial real estate	1,821	3,812	-	-	5,633
One-to-four family - mixed-use property	3,087	10,990	-	-	14,077
One-to-four family - residential	1,437	12,255	-	-	13,692
Co-operative apartments	-	-	-	-	-
Construction loans	-	1,000	-	-	1,000
Small Business Administration	229	224	-	-	453
Taxi Medallion	-	2,118	-	-	2,118
Commercial business and other	-	3,123	-	-	3,123
Total loans	\$10,935	\$ 38,943	\$ -	\$ -	\$49,878

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to \$164.1 million and \$219.6 million, respectively, at March 31, 2016.

**6. Loans held for sale**

Loans held for sale are carried at the lower of cost or estimated fair value. At March 31, 2016 and December 31, 2015, the Bank did not have any loans held for sale.

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

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

(Unaudited)

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

(Dollars in thousands)	For the three months ended March 31, 2016			
	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	3	\$ 874	\$ -	\$ 2
Commercial real estate	2	192	-	-
One-to-four family - mixed-use property	4	1,315	-	21
Total <sup>(1)</sup>	9	\$ 2,381	\$ -	\$ 23

The above table does not include the sale of six performing small business administration loans for proceeds 1) totaling \$3.5 million during the three months ended March 31, 2016. These loans were sold for a net gain of \$0.3 million.

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

(Dollars in thousands)	For the three months ended March 31, 2015			
	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	2	\$ 836	\$ -	\$ 2
One-to-four family - mixed-use property	3	686	-	-
Total	5	\$ 1,522	\$ -	\$ 2

**7. Other Real Estate Owned**

The following are changes in OREO during the periods indicated:

	For the three months ended March 31, 2016    2015 (In thousands)	
Balance at beginning of period	\$4,932	\$6,326
Acquisitions	533	483
Write-down of carrying value	(47 )	-
Sales	(816 )	(1,557)
Balance at end of period	\$4,602	\$5,252

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

(Unaudited)

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 March 31, 2016 2015 (In thousands)	
Gross gains	\$37	\$216
Gross losses	-	(6 )
Total net gain	\$37	\$210

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. During the three months ended March 31, 2016, 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 March 31, 2016, we held two foreclosed residential real estate properties totaling \$0.6 million and at December 31, 2015, we held one foreclosed residential real estate property for \$0.1 million. Included within net loans as of March 31, 2016 and December 31, 2015 was a recorded investment of \$13.5 million and \$15.2 million, respectively, 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**

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

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.

The following tables shows the type of securities pledged and remaining maturity of repurchase agreements held at the periods indicated:

At March 31, 2016  
 Remaining Contractual Maturity of  
 Agreements  
 Less  
 than 1 year    1 year to  
                   3 years    Over 3  
   years    Total

	Less than 1 year	1 year to 3 years	Over 3 years	Total
Repurchase agreements:				
Mortgage-backed securities	\$38,000	\$38,000	\$40,000	\$116,000
Total repurchase agreements	\$38,000	\$38,000	\$40,000	\$116,000

At December 31, 2015  
 Remaining Contractual Maturity of  
 Agreements  
 Less  
 than 1 year    1 year to  
                   3 years    Over 3  
   years    Total

	Less than 1 year	1 year to 3 years	Over 3 years	Total
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 \$132.3 million and \$131.4 million at March 31, 2016 and December 31, 2015, respectively.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

**9. Stock-Based Compensation**

For the three months ended March 31, 2016 and 2015, the Company's net income, as reported, includes \$3.0 million and \$2.8 million, respectively, of stock-based compensation costs and \$1.1 million of income tax benefits related to the stock-based compensation plans in each of the periods.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. During the three months ended March 31, 2016 and 2015, the Company granted 337,175 and 314,520 restricted stock units, respectively. There were no stock options granted during the three months ended March 31, 2016 and 2015.

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 March 31, 2016, there were 473,040 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 market value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year 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.

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 three months ended March 31, 2016:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	415,909	\$ 18.10
Granted	337,175	19.85
Vested	(235,335)	18.71
Forfeited	(900 )	19.43
Non-vested at March 31, 2016	516,849	\$ 18.97
Vested but unissued at March 31, 2016	280,450	\$ 19.28

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

(Unaudited)

As of March 31, 2016, there was \$9.1 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 3.6 years. The total fair value of awards vested for the three months ended March 31, 2016 and 2015 were \$4.8 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 three months ended March 31, 2016:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000) *
Outstanding at December 31, 2015	109,130	\$ 16.14		
Granted	-	-		
Exercised	(18,200 )	19.03		
Forfeited	-	-		
Outstanding at March 31, 2016	90,930	\$ 15.56	2.1	\$ 551

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

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 months ended March 31, 2016 and 2015 are provided in the following table:

(In thousands)	For the three months ended March 31,	
	2016	2015
Proceeds from stock options exercised	\$19	\$-
Fair value of shares received upon exercised of stock options	328	20
Tax (expense) benefit related to stock options exercised	(16)	1
Intrinsic value of stock options exercised	43	2

*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 designated level and completed one year of service. Prior to January 1, 2015, the Plan included officers at a level that are no longer qualified to participate, however those that were eligible remain eligible to participate in the 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.

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

(Unaudited)

The following table summarizes the Phantom Stock Plan at or for the three months ended March 31, 2016:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2015	79,440	\$21.64
Granted	10,150	19.88
Forfeited	-	-
Distributions	(1,362 )	20.28
Outstanding at March 31, 2016	88,228	\$21.62
Vested at March 31, 2016	87,826	\$21.62

The Company recorded stock-based compensation expense for the Phantom Stock Plan of \$29,000 and \$9,000 for the three months ended March 31, 2016 and 2015, respectively. The total fair value of the distributions from the Phantom Stock Plan was \$28,000 and \$8,000 for the three months ended March 31, 2016 and 2015, respectively.

**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.

(In thousands)	Three months ended	
	March 31, 2016	2015
Employee Pension Plan:		

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Interest cost	\$226	\$221
Amortization of unrecognized loss	201	291
Expected return on plan assets	(348)	(350)
Net employee pension expense	\$79	\$162
Outside Director Pension Plan:		
Service cost	\$11	\$11
Interest cost	24	24
Amortization of unrecognized gain	(21 )	(14 )
Amortization of past service liability	10	10
Net outside director pension expense	\$24	\$31
Other Postretirement Benefit Plans:		
Service cost	\$90	\$95
Interest cost	80	75
Amortization of unrecognized loss	12	30
Amortization of past service liability	(21 )	(21 )
Net other postretirement expense	\$161	\$179

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2015 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, 2016. The Company does not expect to make a contribution to the Employee Pension Plan (the “Employee Pension Plan”). As of March 31, 2016, the Company has contributed \$36,000 to the Outside Director Pension Plan and \$18,000 to the Other Postretirement Benefit Plans. As of March 31, 2016, the Company has not revised its expected contributions for the year ending December 31, 2016.

- 25 -

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

(Unaudited)

**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 March 31, 2016, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$30.8 million and \$28.0 million, respectively. At December 31, 2015, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$30.7 million and \$29.0 million, respectively. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the three months ended March 31, 2016.

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	Fair Value Measurements	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option	
			Three Months Ended March 31, 2016	March 31, 2015
(In thousands)	at March 31, 2016	at December 31, 2015		
Mortgage-backed securities	\$ 2,403	\$ 2,527	\$5	\$(8 )
Other securities	28,361	28,205	96	197

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Borrowed funds	27,977	29,018	1,054	524
Net gain from fair value adjustments <sup>(1)</sup>			\$1,155	\$713

The net gain from fair value adjustments presented in the above table does not include net losses of \$2.1 million (1) and \$1.3 million for the three months ended March 31, 2016 and 2015, 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 March 31, 2016 and December 31, 2015. The fair value of borrowed funds includes accrued interest payable of \$0.1 million at March 31, 2016 and December 31, 2015.

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.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

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

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

Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at March 31, 2016 and December 31, 2015.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At March 31, 2016 and December 31, 2015, Level 2 included mortgage related securities, corporate debt, municipals and interest rate swaps.

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At March 31, 2016 and December 31, 2015, Level 3 included trust preferred securities owned and junior subordinated debentures issued by the Company and a single issuer trust preferred security.

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.

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and the method that was used to determine their fair value, at March 31, 2016 and December 31, 2015:

	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	
	2016	2015	2016	2015	2016	2015	2016	2015
	(In thousands)							
<b>Assets:</b>								
Mortgage-backed Securities	\$-	\$ -	\$668,412	\$668,740	\$-	\$-	\$668,412	\$668,740
Other securities	-	-	365,701	317,445	7,150	7,212	372,851	324,657
Interest rate swaps	-	-	-	48	-	-	-	48
<b>Total assets</b>	<b>\$-</b>	<b>\$ -</b>	<b>\$1,034,113</b>	<b>\$986,233</b>	<b>\$7,150</b>	<b>\$7,212</b>	<b>\$1,041,263</b>	<b>\$993,445</b>
<b>Liabilities:</b>								
Borrowings	\$-	\$ -	\$-	\$-	\$27,977	\$29,018	\$27,977	\$29,018
Interest rate swaps	-	-	11,466	4,314	-	-	11,466	4,314
<b>Total liabilities</b>	<b>\$-</b>	<b>\$ -</b>	<b>\$11,466</b>	<b>\$4,314</b>	<b>\$27,977</b>	<b>\$29,018</b>	<b>\$39,443</b>	<b>\$33,332</b>

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

(Unaudited)

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

	For the three months ended March 31, 2016	
	Trust preferred securities	Junior subordinated debentures
	(In thousands)	
Beginning balance	\$7,212	\$ 29,018
Net loss from fair value adjustment of financial assets	(60 )	-
Net gain from fair value adjustment of financial liabilities	-	(1,056 )
Increase in accrued interest payable	-	15
Change in unrealized gains included in other comprehensive income	(2 )	-
Ending balance	\$7,150	\$ 27,977
Changes in unrealized gain (loss) held at period end	\$(2 )	\$ -

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 March 31, 2015		
	Trust Municipal securities	Junior preferred subordinated debentures	
	(In thousands)		
Beginning balance	\$15,519	\$ 7,090	\$ 28,771

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Purchases	1,000	-	-
Principal repayments	(55 )	-	-
Maturities	(2,000 )	-	-
Net gain from fair value adjustment of financial assets	-	94	-
Net gain from fair value adjustment of financial liabilities	-	-	(524 )
Decrease in accrued interest payable	-	-	(3 )
Change in unrealized gains included in other comprehensive income	-	5	-
Ending balance	\$14,464	\$ 7,189	\$ 28,244
Changes in unrealized gain (loss) held at period end	\$-	\$ 5	\$ -

During the three months ended March 31, 2016 and 2015, there were no transfers between Levels 1, 2 and 3.

- 28 -

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

(Unaudited)

The following tables present the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements at the periods indicated:

	March 31, 2016					
	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
	(Dollars in thousands)					
Assets:						
Trust preferred securities	\$7,150	Discounted cash flows	Discount rate	7.0%-	7.12%	7.1 %
Liabilities:						
Junior subordinated debentures	\$27,977	Discounted cash flows	Discount rate	7.0%		7.0 %

	December 31, 2015					
	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average
	(Dollars in thousands)					
Assets:						
Trust preferred securities	\$7,212	Discounted cash flows	Discount rate	7.0%-	7.07%	7.1 %
Liabilities:						
Junior subordinated debentures	\$29,018	Discounted cash flows	Discount rate	7.0%		7.0 %

The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities and junior subordinated debentures valued under Level 3 at March 31, 2016 and December 31, 2015, is the effective yields used in the cash flow models. 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 March 31, 2016 and December 31, 2015:

	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	
	2016	2015	2016	2015	2016	2015	2016	2015
	(In thousands)							
Assets:								
Impaired loans	\$-	\$ -	\$ -	\$ -	\$15,175	\$15,360	\$15,175	\$15,360
Other real estate owned	-	-	-	-	4,602	4,932	4,602	4,932
Total assets	\$-	\$ -	\$ -	\$ -	\$19,777	\$20,292	\$19,777	\$20,292

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

(Unaudited)

The following tables present the quantitative information about non-recurring Level 3 fair value of financial instruments and the fair value measurements at the periods indicated:

		March 31, 2016				
		Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:						
Impaired loans	\$3,465	Income approach	Capitalization rate	7.3% to 8.0%	7.6 %	
			Loss severity discount	14.0% to 15.0%	14.9 %	
Impaired loans	\$4,985	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 20.0%	-3.3 %	
			Loss severity discount	15.0%	15.0 %	
Impaired loans	\$6,725	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 25.0%	-3.3 %	
			Capitalization rate	5.3% to 9.0%	7.1 %	
			Loss severity discount	5.2% to 15.0%	13.8 %	
Other real estate owned	\$3,750	Income approach	Capitalization rate	9.0%	9.0 %	
Other real estate owned	\$852	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-5.0% to 25.0%	10.9 %	

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

December 31, 2015

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$3,878	Income approach	Capitalization rate	7.3% to 8.5%	7.7 %
			Loss severity discount	15.0%	15.0 %
Impaired loans	\$5,555	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 40.0%	-2.2 %
			Loss severity discount	15.0%	15.0 %
Impaired loans	\$5,927	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 25.0%	-2.2 %
			Capitalization rate	5.3% to 9.0%	7.0 %
			Loss severity discount	5.2% to 15.0%	13.7 %
Other real estate owned	\$3,750	Income approach	Capitalization rate	9.0%	9.0 %
Other real estate owned	\$366	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-5.0% to 25.0%	12.0 %
Other real estate owned	\$816	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-10.0% to 15.0%	2.5 %
			Capitalization rate	8.6%	8.6 %

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at March 31, 2016 and December 31, 2015.

The fair value of each material class of financial instruments at March 31, 2016 and December 31, 2015 and the related methods and assumptions used to estimate fair value are as follows:

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

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

**FHLB-NY stock:**

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

**Securities:**

The fair values of securities are contained in Note 4 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued. When there is limited activity or less transparency around inputs to the valuation, securities are valued using discounted cash flows.

**Loans:**

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

For non-accruing loans, fair value is generally estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets or for collateral dependent loans 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the most recent reported arm's length transaction.

**Other Real Estate Owned:**

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

**Accrued Interest Receivable:**

The carrying amount is a reasonable estimate of fair value due to its short-term nature.

**Due to Depositors:**

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

**Borrowings:**

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

**Accrued Interest Payable:**

The carrying amount is a reasonable estimate of fair value due to its short-term nature.

**Interest Rate Swaps:**

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

- 31 -

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

(Unaudited)

**Other Financial Instruments:**

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

At March 31, 2016 and December 31, 2015, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

The following tables set forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at the periods indicated:

	March 31, 2016				
	Carrying	Fair	Level 1	Level 2	Level 3
	Amount	Value			
	(In thousands)				
<b>Assets:</b>					
Cash and due from banks	\$51,417	\$51,417	\$51,417	\$-	\$-
Securities held-to-maturity					
Other securities	7,885	7,885	-	-	7,885
Securities available for sale					
Mortgage-backed securities	668,412	668,412	-	668,412	-
Other securities	372,851	372,851	-	365,701	7,150
Loans	4,458,541	4,501,190	-	-	4,501,190
FHLB-NY stock	53,368	53,368	-	53,368	-
Total assets	\$5,612,474	\$5,655,123	\$51,417	\$1,087,481	\$4,516,225

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Liabilities:					
Deposits	\$4,063,887	\$4,082,649	\$2,701,825	\$1,380,824	\$-
Borrowings	1,190,789	1,206,237	-	1,178,260	27,977
Interest rate swaps	11,466	11,466	-	11,466	-
<b>Total liabilities</b>	<b>\$5,266,142</b>	<b>\$5,300,352</b>	<b>\$2,701,825</b>	<b>\$2,570,550</b>	<b>\$27,977</b>

	December 31, 2015				
	Carrying	Fair			
	Amount	Value	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks	\$42,363	\$42,363	\$42,363	\$-	\$-
Securities held-to-maturity					
Other securities	6,180	6,180	-	-	6,180
Securities available for sale					
Mortgage-backed securities	668,740	668,740	-	668,740	-
Other securities	324,657	324,657	-	317,445	7,212
Loans	4,387,979	4,434,079	-	-	4,434,079
FHLB-NY stock	56,066	56,066	-	56,066	-
Interest rate swaps	48	48	-	48	-
<b>Total assets</b>	<b>\$5,486,033</b>	<b>\$5,532,133</b>	<b>\$42,363</b>	<b>\$1,042,299</b>	<b>\$4,447,471</b>

Liabilities:					
Deposits	\$3,892,547	\$3,902,888	\$2,489,245	\$1,413,643	\$-
Borrowings	1,271,676	1,279,946	-	1,250,928	29,018
Interest rate swaps	4,314	4,314	-	4,314	-
<b>Total liabilities</b>	<b>\$5,168,537</b>	<b>\$5,187,148</b>	<b>\$2,489,245</b>	<b>\$2,668,885</b>	<b>\$29,018</b>

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

(Unaudited)

**12. Derivative Financial Instruments**

At March 31, 2016 and December 31, 2015, the Company's derivative financial instruments consist of interest rate swaps. The Company's interest rate swaps are used for two purposes. The first purpose is to mitigate the Company's exposure to rising interest rates on a portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million. The second purpose is to mitigate the Company's exposure to rising interest rates on certain fixed rate loans totaling \$155.9 million and \$146.9 million at March 31, 2016 and December 31, 2015, respectively.

At March 31, 2016 and December 31, 2015 derivatives with a combined notional amount of \$36.3 million were not designated as hedges. At March 31, 2016 and December 31, 2015 derivatives with a combined notional amount of \$137.6 million and \$128.5 million were designated as fair value hedges. Changes in the fair value of interest rate swaps not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income.

The following table sets forth information regarding the Company's derivative financial instruments at the periods indicated:

	March 31, 2016		December 31, 2015	
	Notional Amount	Net Carrying Value <sup>(1)</sup>	Notional Amount	Net Carrying Value <sup>(1)</sup>
Interest rate swaps (hedge)	\$-	\$-	\$28,588	\$48
Interest rate swaps (hedge)	137,607	(6,565 )	99,955	(1,515 )
Interest rate swaps (non-hedge)	36,321	(4,901 )	36,321	(2,799 )
Total derivatives	\$173,928	\$(11,466)	\$164,864	\$(4,266)

(1)

Derivatives in a net positive position are recorded as “Other assets” and derivatives in a net negative position are recorded as “Other liabilities” in the Consolidated Statements of Financial Condition. There were no unrealized losses at March 31, 2016 and December 31, 2015.

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

(In thousands)	For the three months ended March 31,	
	2016	2015
Financial Derivatives:		
Interest rate swaps (non-hedge)	\$(2,102)	\$(1,254)
Interest rate swaps (hedge)	(40 )	(54 )
Net loss <sup>(1)</sup>	\$(2,142)	\$(1,308)

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

During the three months ended March 31, 2016 and 2015, the Company did not record any hedge ineffectiveness.

The Company’s interest rate swaps are subject to master netting arrangements and are all with the same counterparty. The Company has not made a policy election to offset its derivative positions.

The Company did not have derivative assets presented in the Consolidated Statements of Condition at March 31, 2016.

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

(Unaudited)

The following tables present the effect of the master netting arrangements on the presentation of the derivative assets in the Consolidated Statements of Condition as of the dates indicated:

(In thousands)	December 31, 2015			Gross Amounts Not Offset in the Consolidated Statement of Condition		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Statement of Condition	Net Amount of Assets Presented in the Statement of Condition	Financial Instruments	Cash Collateral Received	Net Amount
Interest rate swaps	\$ 48	\$ -	\$ 48	\$ 48	\$ -	\$ -

The following tables present the effect the master netting arrangements had on the presentation of the derivative liabilities in the Consolidated Statements of Condition as of the dates indicated:

(In thousands)	March 31, 2016			Gross Amounts Not Offset in the Consolidated Statement of Condition		
	Gross Amount of	Gross Amount Offset in	Net Amount of Liabilities	Financial Instruments	Cash Collateral Pledged	Net Amount

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

	Recognized Liabilities	the Statement of Condition	Presented in the Statement of Condition			
Interest rate swaps	\$ 11,466	\$ -	\$ 11,466	\$-	\$ 11,466	\$ -

December 31, 2015

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Condition	Net Amount of Liabilities Presented in the Statement of Condition	Gross Amounts Not Offset in the Consolidated Statement of Condition		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Interest rate swaps	\$ 4,314	\$ -	\$ 4,314	\$ 48	\$ 4,266	\$ -

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

(Unaudited)

**13. Income Taxes**

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

Income tax provisions are summarized as follows:

(In thousands)	For the three months ended March 31,	
	2016	2015
Federal:		
Current	\$3,660	\$2,914
Deferred	1,087	1,338
Total federal tax provision	4,747	4,252
State and Local:		
Current	385	707
Deferred	483	587
Total state and local tax provision	868	1,294
Total income tax provision	\$5,615	\$5,546

The effective tax rate was 37.0% and 38.8% for the three months ended March 31, 2016 and 2015, respectively. The decrease in the effective tax rate reflects the greater impact that preferential tax items had on the Company's tax liability during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 and changes in New York City tax law signed into law on April 13, 2015.

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

(Dollars in thousands)	For the three months ended March 31,			
	2016		2015	
Taxes at federal statutory rate	\$5,312	35.0%	\$4,998	35.0%
Increase (reduction) in taxes resulting from:				
State and local income tax, net of Federal income tax benefit	564	3.7	841	5.9
Other	(261 )	(1.7 )	(293 )	(2.1 )
Taxes at effective rate	\$5,615	37.0%	\$5,546	38.8%

The Company has recorded a deferred tax asset of \$31.3 million at March 31, 2016, which is included in "Other assets" in the Consolidated Statements of Financial Condition. This represents the anticipated net federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. The Company has reported taxable income for federal, state, and local tax purposes in each of the past three fiscal years. In management's opinion, in view of the Company's previous, current and projected future earnings trend, the probability that some of the Company's \$23.5 million deferred tax liability can be used to offset a portion of the deferred tax asset, as well as certain tax planning strategies, it is more likely than not that the deferred tax asset will be fully realized. Accordingly, no valuation allowance was deemed necessary for the deferred tax asset at March 31, 2016.

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

(Unaudited)

**14. Accumulated Other Comprehensive Income:**

The following table sets forth the changes in accumulated other comprehensive income by component for the three months ended March 31, 2016:

	Unrealized Gains and (Losses) on Available for Sale Securities (In thousands)	Defined Benefit Pension Items	Total
Beginning balance, net of tax	\$(521 )	\$(5,041)	\$(5,562)
Other comprehensive income before reclassifications, net of tax	6,770	-	\$6,770
Amounts reclassified from accumulated other comprehensive income, net of tax	-	103	103
Net current period other comprehensive income, net of tax	6,770	103	6,873
Ending balance, net of tax	\$6,249	\$(4,938)	\$1,311

The following table sets forth the changes in accumulated other comprehensive income by component for the three months ended March 31, 2015:

Unrealized Gains	Defined Benefit	Total
---------------------	--------------------	-------

	and Pension (Losses) Items on Available for Sale Securities (In thousands)		
Beginning balance, net of tax	\$3,392	\$(6,299)	\$(2,907)
Other comprehensive income before reclassifications, net of tax	4,332	-	\$4,332
Amounts reclassified from accumulated other comprehensive income, net of tax	-	168	168
Net current period other comprehensive income, net of tax	4,332	168	4,500
Ending balance, net of tax	\$7,724	\$(6,131)	\$1,593

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

(Unaudited)

The following tables set forth significant amounts reclassified from accumulated other comprehensive income by component for the periods indicated:

For the three months ended March 31, 2016

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items:		
Actuarial losses	\$ (192 ) (1)	Other expense
Prior service credits	11 (1)	Other expense
	(181 )	Total before tax
	78	Tax benefit
	\$ (103 )	Net of tax

For the three months ended March 31, 2015

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items:		
Actuarial losses	\$ (307 ) (1)	Other expense
Prior service credits	11 (1)	Other expense

(296 )	Total before tax
128	Tax benefit
\$ (168 )	Net of tax

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

- 37 -

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

(Unaudited)

**15. Regulatory Capital**

Under current capital regulations, the Bank is required to comply with four separate capital adequacy standards. As of March 31, 2016, the Bank continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. In 2016, a Capital Conservation Buffer (“CCB”) requirement became effective for banks. The CCB is designed to establish a capital range above minimum capital requirements and impose constraints on dividends, share buybacks and discretionary bonus payments when capital levels fall below prescribed levels. The minimum CCB in 2016 is 0.625% and increases 0.625% annually through 2019 to 2.5%. The CCB for the Bank at March 31, 2016 was 5.1%.

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

	March 31, 2016		December 31, 2015	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$498,308	8.65 %	\$494,690	8.89 %
Requirement to be well capitalized	288,017	5.00	278,175	5.00
Excess	210,291	3.65	216,515	3.89
Common Equity Tier I risk-based capital:				
Capital level	\$498,308	12.51 %	\$494,690	12.62
Requirement to be well capitalized	258,947	6.50	254,768	6.50
Excess	239,361	6.01	239,922	6.12
Tier 1 risk-based capital:				
Capital level	\$498,308	12.51 %	\$494,690	12.62 %
Requirement to be well capitalized	318,703	8.00	313,560	8.00
Excess	179,605	4.51	181,130	4.62

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Total risk-based capital:				
Capital level	\$520,300	13.06%	\$516,226	13.17%
Requirement to be well capitalized	398,379	10.00	391,950	10.00
Excess	121,921	3.06	124,276	3.17

The Holding Company is subject to the same regulatory capital requirements as the Bank. As of March 31, 2016, the Holding Company continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. The CCB for the Holding Company at March 31, 2016 was 5.1%.

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

(Unaudited)

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

	March 31, 2016		December 31, 2015	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$497,698	8.65 %	\$490,919	8.84 %
Requirement to be well capitalized	287,543	5.00	277,611	5.00
Excess	210,155	3.65	213,308	3.84
Common Equity Tier I risk-based capital:				
Capital level	\$470,685	11.84 %	\$462,883	11.83
Requirement to be well capitalized	258,443	6.50	254,335	6.50
Excess	212,242	5.34	208,548	5.33
Tier 1 risk-based capital:				
Capital level	\$497,698	12.52 %	\$490,919	12.55 %
Requirement to be well capitalized	318,084	8.00	313,028	8.00
Excess	179,614	4.52	177,891	4.55
Total risk-based capital:				
Capital level	\$519,691	13.07 %	\$512,454	13.10 %
Requirement to be well capitalized	397,605	10.00	391,285	10.00
Excess	122,086	3.07	121,169	3.10

**16. New Authoritative Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, “Compensation – Stock Compensation” which introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an additional paid in capital pool. The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. From the lessee's perspective, the new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

In January 2016, FASB issued ASU No. 2016-01 “Financial Instruments” which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is not permitted for the changes that affect the Company. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

- 40 -



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

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

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Management’s Discussion and Analysis of**

**Financial Condition and Results of Operations**

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

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

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

· maintain asset quality;

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

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

· cross sell to lending and deposit customers;

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

· manage interest rate risk and capital; and

· manage enterprise-wide risk.

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

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

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

The first quarter of 2016 continued the trend of improving credit quality, as we continued to see improvements in non-performing assets. Non-performing assets were \$29.9 million at March 31, 2016, which was a decrease of \$1.1 million, or 3.6%, from December 31, 2015. Non-accrual loans decreased \$0.7 million, or 3.1%, during the first quarter to \$22.1 million, and are at their lowest level since the third quarter of 2008. During the first quarter of 2016 we sold nine delinquent loans for proceeds totaling \$2.4 million, realizing a gain on sale of \$23,000. Net recoveries for the three months ended March 31, 2016 were \$0.5 million. Our strong underwriting standards coupled with our practice of obtaining updated appraisals and recording charge-offs, when necessary, has resulted in a 40.6% average loan-to-value ratio on our collateral dependent loans reviewed for impairment at March 31, 2016.

Net loans increased \$70.1 million, or 1.6%, during the first quarter of 2016. Loan originations and purchases for the three months ended March 31, 2016 totaled \$229.2 million. The quarter included the purchase of \$12.0 million in commercial business loans, at a yield of 3.63%. During the three months ended March 31, 2016, originations and purchases were primarily multi-family real estate, commercial real estate and commercial business loans as originations and purchases of these loan types accounted for 84.5% of the quarter’s originations. The weighted average yield on loan originations and purchases increased to 3.77% for the first quarter of 2016 from 3.68% and 3.55% for the quarters ended December 31, 2015 and March 31, 2015, respectively. Loan applications in process increased 32.1% during the three months ended March 31, 2016 to \$436.5 million from \$330.5 million at December 31, 2015.

Our net interest margin for the first quarter of 2016 was 3.00%, an increase of two basis points from the trailing quarter. Included in net interest income are prepayment penalties and interest recovered from non-accrual loans. The first quarter of 2016 had an elevated level of prepayment penalty income, while interest recovered from non-accrual loans was slightly above in the trailing quarter. Absent these two items in both periods, the net interest margin would have decreased by one basis point to 2.83% for the first quarter of 2016 from 2.84% for the fourth quarter of 2015.

## PART I – FINANCIAL INFORMATION

### FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

#### Management's Discussion and Analysis of

#### Financial Condition and Results of Operations

At March 31, 2016, the Bank was considered to be well-capitalized under all regulatory requirements, with Tier 1 leverage, Common Equity Tier 1, Tier 1 Risk-based, and Total Risk-based capital ratios of 8.65%, 12.51%, 12.51% and 13.06%, respectively. The Company also is subject to the same regulatory requirements. At March 31, 2016, the Company's capital ratios for Tier 1 leverage, Common Equity Tier 1, Tier 1 Risk-based, and Total Risk-based capital ratios were 8.65%, 11.84%, 12.52% and 13.07%, respectively.

#### COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

**General.** Net income for the three months ended March 31, 2016 was \$9.6 million, an increase of \$0.8 million, or 9.5%, compared to \$8.7 million for the three months ended March 31, 2015. Diluted earnings per common share were \$0.33 for the three months ended March 31, 2016, an increase of \$0.03, or 10.0%, from \$0.30 for the three months ended March 31, 2015.

Return on average equity increased to 8.0% for the three months ended March 31, 2016 from 7.6% for the three months ended March 31, 2015. Return on average assets was 0.7% for both the three months ended March 31, 2016 and 2015.

**Interest Income.** Total interest and dividend income increased \$4.8 million, or 9.7%, to \$54.4 million for the three months ended March 31, 2016 from \$49.5 million for the three months ended March 31, 2015. The increase in interest income was primarily attributable to an increase of \$629.1 million in the average balance of interest-earning assets to \$5,490.7 million for the three months ended March 31, 2016 from \$4,861.6 million for the comparable prior year period, partially offset by a decrease of 12 basis points in the yield of interest-earning assets to 3.96% for the three months ended March 31, 2016 from 4.08% in the comparable prior year period. The decline in the yield on interest-earning assets of 12 basis points was primarily due to a 20 basis point reduction in the yield of total loans, net to 4.33% for the three months ended March 31, 2016 from 4.53% for the three months ended March 31, 2015. The yield on interest-earning assets was positively impacted by an increase of \$541.6 million in the average balance of higher yielding total loans, net to \$4,389.3 million for the three months ended March 31, 2016 from \$3,847.7 million for the comparable prior year period. Additionally, the yield on the securities portfolio increased 17 basis points to 2.64% for three months ended March 31, 2016, from 2.47% for the comparable prior year period. The 20 basis point decrease in the yield on the total loans, net was primarily due to the decline in the rates earned on new loan

originations and purchases, as compared to the existing portfolio, loans modifying to lower rates, and higher yielding loans prepaying. The 17 basis point increase in the yield on the securities portfolio was primarily due to the current year including \$62.1 million in purchases at an average yield of 2.88%. Excluding prepayment penalty income and recovered interest from loans, the yield on total loans, net, would have decreased 21 basis points to 4.13% for the three months ended March 31, 2016 from 4.34% for the three months ended March 31, 2015.

**Interest Expense.** Interest expense increased \$1.2 million, or 10.4%, to \$13.2 million for the three months ended March 31, 2016 from \$12.0 million for the three months ended March 31, 2015. The increase in interest expense was primarily due to an increase of \$569.7 million in the average balance of interest-bearing liabilities to \$4,959.6 million for the three months ended March 31, 2016, from \$4,389.8 million for the comparable prior year period, partially offset by a decrease of two basis points in the cost of interest-bearing liabilities to 1.07% for the three months ended March 31, 2016 from 1.09% for the comparable prior year period. The decline in the cost of interest-bearing liabilities of two basis points was primarily due to a decrease of 19 basis points in the cost of certificates of deposit. The decrease in the cost of certificates of deposit was primarily due to maturing issuances being replaced at lower rates. This decrease was partially offset by increases of 20 basis points, five basis points, four basis points and four basis points in the cost of money market, savings, NOW accounts and borrowed funds, respectively, for the three months ended March 31, 2016 from the comparable prior year period. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to a money market product which does not require us to provide collateral, allowing us to invest these funds in higher yielding assets. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. The cost of NOW accounts increased primarily due to an increase in the rate we pay on our premium checking product. The cost of borrowed funds increased due to maturing issuances being replaced at higher rates, as we look to extend the term of our borrowings. Additionally, the cost of interest-bearing liabilities was reduced by an increase in the average balance of lower costing core deposits during the three months ended March 31, 2016 to \$2,342.1 million from \$2,022.3 million for the comparable prior year period, partially offset by increases of \$141.4 million and \$106.4 million in the average balance of higher costing borrowed funds and certificates of deposit, respectively, during the three months ended March 31, 2016 as compared to the three months ended March 31, 2015.

## PART I – FINANCIAL INFORMATION

### FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

#### Management’s Discussion and Analysis of

#### Financial Condition and Results of Operations

**Net Interest Income.** For the three months ended March 31, 2016, net interest income was \$41.1 million, an increase of \$3.6 million, or 9.5%, from \$37.6 million for the three months ended March 31, 2015. The increase in net interest income was primarily due to an increase of \$629.1 million in the average balance of interest-earning assets to \$5,490.7 million for the three months ended March 31, 2016 from \$4,861.6 million for the comparable prior year period. The yield earned on interest-earning assets decreased 12 basis points to 3.96% for the quarter ended March 31, 2016 from 4.08% for the comparable prior year period. The cost of interest-bearing liabilities decreased two basis points to 1.07% for the three months ended March 31, 2016 as compared to 1.09% for the three months ended March 31, 2015. The effects of the above on both the net interest spread and net interest margin was a decrease of 10 basis points to 2.89% and a decrease of nine basis points to 3.00%, respectively, for the quarter ended March 31, 2016, compared to the quarter ended March 31, 2015. Included in net interest income was prepayment penalty income from loans for the three months ended March 31, 2016 and 2015 totaling \$2.2 million and \$1.2 million, respectively, along with recovered interest from non-accrual loans totaling \$0.1 million and \$0.6 million, respectively. Without the prepayment penalty income and recovered interest, the net interest margin for the three months ended March 31, 2016 would have been 2.83%, a decrease of 11 basis points, as compared to 2.94% for the three months ended March 31, 2015.

**Benefit for Loan Losses.** During the three months ended March 31, 2016 no provision for loan losses was recorded compared to a benefit of \$0.7 million recorded during the comparable prior year period. No provision was recorded during the three months ended March 31, 2016 due to the quarterly analysis of the adequacy of the allowance for loan losses indicating that the reserve was at an appropriate level. During the three months ended March 31, 2016, the Bank recorded net recoveries totaling \$0.5 million, as we continue to see improvement in credit conditions. During the three months ended March 31, 2016, non-accrual loans decreased \$0.7 million to \$22.1 million from \$22.8 million at December 31, 2015. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 42.1% at March 31, 2016. When we have obtained properties through foreclosure, we have been able to sell the properties at amounts that approximate book value. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. See “-ALLOWANCE FOR LOAN LOSSES.”

**Non-Interest Income.** Non-interest income for the three months ended March 31, 2016 was \$2.5 million, an increase of \$0.6 million, or 31.6%, from \$1.9 million for the three months ended March 31, 2015. The increase in non-interest income was primarily due to net gains of \$0.4 million and \$0.3 million from life insurance proceeds and from the sale of loans, respectively.

**Non-Interest Expense.** Non-interest expense was \$28.5 million for the three months ended March 31, 2016, an increase of \$2.6 million, or 9.9%, from \$25.9 million for the three months ended March 31, 2015. The increase in non-interest expense was primarily due to an increase of \$1.6 million in salaries and benefits primarily due to annual salary increases and additions in staffing in retail, audit and compliance departments, as well as increases in production incentives and the cost of split dollar life insurance benefits. The first quarter also included an increase of \$0.8 million in other operating expenses, primarily due to increased compliance costs and an increase of \$0.4 million in professional services expense from increase legal and consulting expenses. Additionally, the first quarter included an increase of \$0.4 million in depreciation and amortization expense, primarily due to the opening of two new branches along with the move to our new corporate headquarters both occurring in 2015. The three months ended March 31, 2015 included \$0.5 million in one-time expenses stemming from ATM fraud losses. The efficiency ratio improved to 64.5% for the three months ended March 31, 2016 from 64.9% for the three months ended March 31, 2015.

**Income before Income Taxes.** Income before the provision for income taxes increased \$0.9 million, or 6.3%, to \$15.2 million for the three months ended March 31, 2016 from \$14.3 million for the three months ended March 31, 2015 for the reasons discussed above.

**Provision for Income Taxes.** The provision for income taxes for the three months ended March 31, 2016 was \$5.6 million, an increase of \$0.1 million, or 1.2%, from \$5.5 million for the comparable prior year period. The increase was primarily due to an increase of \$0.9 million, or 6.3%, in income before income taxes, partially offset by a reduction in the effective tax rate to 37.0% for the three months ended March 31, 2016 from 38.8% in the comparable prior year period. The decrease in the effective tax rate reflects the impact of a change in New York City tax law enacted in 2015, which based on the Company's lending mix and certain other factors, reduced our New York City tax liability. Additionally, the decrease in the effective tax rate reflects the greater impact that preferential tax items had on the Company's tax liability during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

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

**Assets.** Total assets at March 31, 2016 were \$5,813.1 million, an increase of \$108.4 million, or 1.9%, from \$5,704.6 million at December 31, 2015. Total loans, net increased \$70.1 million, or 1.6%, during the three months ended March 31, 2016 to \$4,436.5 million from \$4,366.4 million at December 31, 2015. Loan originations and purchases were \$229.2 million for the three months ended March 31, 2016, a decrease of \$77.3 million from \$306.5 million for the three months ended March 31, 2015. During the three months ended March 31, 2016, we continued to focus on the origination of multi-family residential, commercial real estate and commercial business loans with a full relationship. The loan pipeline totaled \$436.5 million at March 31, 2016 compared to \$330.5 million at December 31, 2015.

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

(In thousands)	For the three months ended March 31,	
	2016	2015
Multi-family residential <sup>(1)</sup>	\$69,643	\$126,746
Commercial real estate <sup>(2)</sup>	62,137	86,395
One-to-four family – mixed-use property	18,245	14,981
One-to-four family – residential	9,493	13,103
Construction	1,687	542
Small Business Administration	6,001	1,248
Commercial business and other <sup>(3)</sup>	62,034	63,507
Total	\$229,240	\$306,522

(1) Includes purchases of \$99.9 million for the three months ended March 31, 2015.

(2) Includes purchases of \$12.0 million and \$11.0 million for the three months ended March 31, 2016 and 2015, respectively.

(3) Includes purchases of \$0.4 million for the three months ended March 31, 2015.

The Bank maintains its conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the first quarter of 2016 had an average loan-to-value ratio of 38.7% and an average debt coverage ratio of 248%.

The Bank's non-performing assets totaled \$29.9 million at March 31, 2016, a decrease of \$1.1 million from \$31.0 million at December 31, 2015. Total non-performing assets as a percentage of total assets were 0.51% at March 31, 2015 compared to 0.54% at December 31, 2015. The ratio of allowance for loan losses to total non-performing loans was 86.9% at March 31, 2016 and 82.6% at December 31, 2015. See – "TROUBLED DEBT RESTRUCTURED AND NON-PERFORMING ASSETS."

During the three months ended March 31, 2016, mortgage-backed securities decreased \$0.3 million to \$668.4 million from \$668.7 million at December 31, 2015. The decrease in mortgage-backed securities during the three months ended March 31, 2016 was primarily due to principal repayments of \$21.3 million and the amortization of premiums totaling \$0.6 million, which were partially offset by an increase of \$11.5 million in the fair value of mortgage-backed securities and purchases of \$10.1 million at an average yield of 2.63%.

During the three months ended March 31, 2016, other securities, including securities held-to-maturity, increased \$49.9 million, or 15.1%, to \$380.7 million from \$330.8 million at December 31, 2015. The increase in other securities during the three months ended March 31, 2016 was primarily due to purchases of \$52.1 million at an average yield of 2.93% and an increase of \$0.4 million in the fair value of other securities, which was partially offset by maturities totaling \$2.0 million and the amortization of premiums totaling \$0.7 million. Other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, collateralized loan obligations and corporate bonds.

## PART I – FINANCIAL INFORMATION

### FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

#### Management's Discussion and Analysis of

#### Financial Condition and Results of Operations

**Liabilities.** Total liabilities were \$5,325.3 million at March 31, 2016, an increase of \$93.7 million, or 1.8%, from \$5,231.6 million at December 31, 2015. During the three months ended March 31, 2016, due to depositors increased \$151.6 million, or 3.9%, to \$4,007.3 million, due to an increase of \$192.8 million in core deposits, which was partially offset by a decrease of \$41.2 million in certificates of deposit. The increase in core deposits was due to increases of \$162.2 million, \$13.3 million, \$11.0 million and \$6.3 million in NOW, money market, demand and savings accounts, respectively. Borrowed funds decreased \$80.9 million during the three months ended March 31, 2016. The decrease in borrowed funds was primarily due to a net decrease in short-term borrowings totaling \$90.0 million at an average cost of 0.53% and the maturity of \$71.7 million in long-term borrowings at an average cost of 0.93%, which was partially offset by the addition of \$81.8 million in long-term borrowings at an average cost of 1.49%.

**Equity.** Total stockholders' equity increased \$14.7 million, or 3.1%, to \$487.8 million at March 31, 2016 from \$473.1 million at December 31, 2015. Stockholders' equity increased primarily due to net income of \$9.6 million, an increase in other comprehensive income totaling \$6.9 million, primarily due to an increase in the fair value of the securities portfolio and the net impact totaling \$3.6 million from the vesting and exercising of shares of employee and director stock plans. These increases were partially offset by the declaration and payment of dividends on the Company's common stock of \$0.17 per common share totaling \$5.0 million and the purchase of 15,300 treasury shares, at an average price of \$19.82 per share, for a total cost of \$0.3 million. Book value per common share was \$16.83 at March 31, 2016 compared to \$16.41 at December 31, 2015.

**Cash flow.** During the three months ended March 31, 2016, funds provided by the Company's operating activities amounted to \$16.6 million. These funds combined with \$84.6 million provided from financing activities were utilized to fund net investing activities of \$92.2 million. The Company's primary business objective is the origination and purchase of multi-family residential loans, commercial business loans and commercial real estate mortgage loans and to a lesser extent one-to-four family (including mixed-use properties) and SBA loans. During the three months ended March 31, 2016, the net total of loan originations and purchases less loan repayments and sales was \$59.9 million. During the three months ended March 31, 2016, the Company also funded \$58.5 million in purchases of securities available for sale. During the three months ended March 31, 2016, funds were provided by a net increase in total deposits of \$171.1 million and long-term borrowed funds of \$81.8 million. Additionally, funds were provided by \$21.3 million in proceeds from maturities, sales, calls and prepayments of securities available for sale. In addition to funding loan growth, these funds were used to repay \$90.0 million in short-term borrowings and \$71.7 million in long-term borrowings. The Company also used funds of \$5.0 million and \$1.9 million for dividend payments and purchases of treasury stock, respectively, during the three months ended March 31, 2016.

**INTEREST RATE RISK**

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

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the "Earnings and Economic Exposure to Changes in Interest Rate" report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company's regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2016. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At March 31, 2016, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

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

The following table presents the Company’s interest rate shock as of March 31, 2016:

Change in Interest Rate	Projected Percentage Change In		
	Net Interest Income	Net Portfolio Value	Net Portfolio Value Ratio
-200 Basis points	-2.61 %	6.11 %	11.12 %
-100 Basis points	0.14	5.68	11.24
Base interest rate	0.00	0.00	10.92
+100 Basis points	-4.26	-10.79	10.04
+200 Basis points	-9.00	-23.57	8.88

**AVERAGE BALANCES**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended March 31, 2016 and 2015, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.



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

	For the three months ended					
	March 31, 2016			March 31, 2015		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Mortgage loans, net <sup>(1)</sup>	\$3,839,325	\$42,454	4.42 %	\$3,358,603	\$39,440	4.70 %
Other loans, net <sup>(1)</sup>	550,006	5,104	3.71	489,117	4,094	3.35
Total loans, net	4,389,331	47,558	4.33	3,847,720	43,534	4.53
Taxable securities:						
Mortgage-backed securities	658,764	4,174	2.53	702,507	4,381	2.49
Other securities	229,991	1,745	3.03	129,943	720	2.22
Total taxable securities	888,755	5,919	2.66	832,450	5,101	2.45
Tax-exempt securities: <sup>(2)</sup>						
Other securities	127,355	792	2.49	137,987	887	2.57
Total tax-exempt securities	127,355	792	2.49	137,987	887	2.57
Interest-earning deposits and federal funds sold	85,273	94	0.44	43,485	21	0.19
Total interest-earning assets	5,490,714	54,363	3.96	4,861,642	49,543	4.08
Other assets	284,036			271,317		
Total assets	\$5,774,750			\$5,132,959		
Interest-bearing liabilities:						
Deposits:						
Savings accounts	\$262,443	298	0.45	\$266,208	264	0.40
NOW accounts	1,621,779	1,922	0.47	1,451,446	1,550	0.43
Money market accounts	457,895	606	0.53	304,662	253	0.33
Certificate of deposit accounts	1,404,151	5,121	1.46	1,297,766	5,368	1.65
Total due to depositors	3,746,268	7,947	0.85	3,320,082	7,435	0.90
Mortgagors' escrow accounts	49,947	26	0.21	47,840	23	0.19
Total interest-bearing deposits	3,796,215	7,973	0.84	3,367,922	7,458	0.89
Borrowings	1,163,348	5,257	1.81	1,021,920	4,531	1.77
Total interest-bearing liabilities	4,959,563	13,230	1.07	4,389,842	11,989	1.09
Non interest-bearing demand deposits	273,937			233,685		
Other liabilities	61,826			49,327		
Total liabilities	5,295,326			4,672,854		
Equity	479,424			460,105		
Total liabilities and equity	\$5,774,750			\$5,132,959		

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Net interest income /net interest rate spread	\$41,133	2.89%	\$37,554	2.99%
Net interest-earning assets / net interest margin	\$531,151	3.00%	\$471,800	3.09%
Ratio of interest-earning assets to interest-bearing liabilities		1.11 X		1.11 X

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$1.5 million and \$0.7 million for the three months ended March 31, 2016 and 2015, respectively.

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

- 48 -

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

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

(In thousands)	For the three months ended March 31,	
	2016	2015
Mortgage Loans		
At beginning of period	\$3,832,914	\$3,321,501
Mortgage loans originated:		
Multi-family residential	69,643	26,857
Commercial real estate	50,137	75,427
One-to-four family – mixed-use property	18,245	14,981
One-to-four family – residential	9,493	13,103
Construction	1,687	542
Total mortgage loans originated	149,205	130,910
Mortgage loans purchased:		
Multi-family residential	-	99,889
Commercial real estate	12,000	10,968
Total mortgage loans purchased	12,000	110,857
Less:		
Principal and other reductions	115,335	84,235
Sales	2,304	1,427
At end of period	\$3,876,480	\$3,477,606
Non-Mortgage Loans		
At beginning of period	\$539,697	\$477,153

Other loans originated:		
Small Business Administration	6,001	1,248
Commercial business	61,620	62,538
Other	414	530
Total other loans originated	68,035	64,316
Other loans purchased:		
Other	-	439
Total other loans purchased	-	439
Less:		
Principal and other reductions	37,741	34,734
Sales	3,211	-
At end of period	\$566,780	\$507,174

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

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

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

(In thousands)	March 31, 2016	December 31, 2015
Accrual Status:		
Multi-family residential	\$2,611	\$ 2,626
Commercial real estate	2,358	2,371
One-to-four family - mixed-use property	2,042	2,052
One-to-four family - residential	341	343
Small business administration	32	34
Commercial business and other	2,038	2,083
 Total performing troubled debt restructured	 \$9,422	 \$ 9,509

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

- 50 -

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

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

(In thousands)	March 31, 2016	December 31, 2015
Loans 90 days or more past due and still accruing:		
Multi-family residential	\$792	\$233
Commercial real estate	1,083	1,183
One-to-four family - mixed-use property	743	611
One-to-four family - residential	13	13
Construction	570	1,000
Commercial business and other	-	220
Total	3,201	3,260
Non-accrual loans:		
Multi-family residential	3,518	3,561
Commercial real estate	3,295	2,398
One-to-four family - mixed-use property	5,519	5,952
One-to-four family - residential	8,861	10,120
Small business administration	201	218
Taxi Medallion	196	-
Commercial business and other	511	568
Total	22,101	22,817
Total non-performing loans	25,302	26,077
Other non-performing assets:		
Real estate acquired through foreclosure	4,602	4,932
Total	4,602	4,932
Total non-performing assets	\$29,904	\$31,009
Non-performing assets to total assets	0.51 %	0.54 %
Allowance for loan losses to non-performing loans	86.90 %	82.60 %

Included in loans over 90 days past due and still accruing were nine loans totaling \$3.2 million and ten loans totaling \$3.3 million at March 31, 2016 and December 31, 2015, respectively, which are past their respective maturity dates and are still remitting payments. The Bank is actively working with these borrowers to extend the loans maturity or repay these loans.

Included in non-performing loans was one loan totaling \$0.4 million at March 31, 2016 and December 31, 2015 which was restructured as TDR and not performing in accordance with its restructured terms.

During the three months ended March 31, 2016, 12 loans totaling \$3.4 million were added to non-accrual loans, five loans totaling \$0.9 million were returned to performing status, six loans totaling \$0.9 million were paid in full, five loans totaling \$1.7 million were sold, and one loan totaling \$0.5 million was transferred to other real estate owned.

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

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

	March 31, 2016		December 31, 2015	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	\$445	\$6,644	\$804	\$9,422
Commercial real estate	381	767	153	2,820
One-to-four family - mixed-use property	326	8,961	1,257	8,630
One-to-four family - residential	276	2,711	154	4,261
Small Business Administration	-	37	-	42
Taxi medallion	-	860	-	-
Commercial business and other	1	-	2	-
Total delinquent loans	\$1,429	\$19,980	\$2,370	\$25,175

**CRITICIZED AND CLASSIFIED ASSETS**

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

asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were \$56.9 million at March 31, 2016, an increase of \$2.1 million from \$54.8 million at December 31, 2015.

- 52 -

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

The following table sets forth the Bank’s assets designated as Criticized and Classified at March 31, 2016:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$8,505	\$ 5,790	\$ -	\$ -	\$14,295
Commercial real estate	1,500	5,203	-	-	6,703
One-to-four family - mixed-use property	2,716	9,657	-	-	12,373
One-to-four family - residential	1,538	10,964	-	-	12,502
Co-operative apartments	-	-	-	-	-
Construction loans	-	570	-	-	570
Small Business Administration	504	326	-	-	830
Taxi Medallion	-	2,110	-	-	2,110
Commercial business and other	147	2,803	-	-	2,950
Total loans	14,910	37,423	-	-	52,333
Other Real Estate Owned	-	4,602	-	-	4,602
Total	\$14,910	\$ 42,025	\$ -	\$ -	\$56,935

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$4,361	\$ 5,421	\$ -	\$ -	\$9,782
Commercial real estate	1,821	3,812	-	-	5,633
One-to-four family - mixed-use property	3,087	10,990	-	-	14,077
One-to-four family - residential	1,437	12,255	-	-	13,692
Construction loans	-	1,000	-	-	1,000
Small Business Administration	229	224	-	-	453
Taxi Medallion	-	2,118	-	-	2,118

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

Commercial business and other	-	3,123	-	-	3,123
Total loans	10,935	38,943	-	-	49,878
Other Real Estate Owned	-	4,932	-	-	4,932
Total	\$ 10,935	\$ 43,875	\$ -	\$ -	\$ 54,810

On a quarterly basis all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At March 31, 2016, the current average loan-to-value ratio on our collateral dependent loans reviewed for impairment was 40.6%.

- 53 -

## **PART I – FINANCIAL INFORMATION**

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

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

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

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

We have established and maintain on our books an allowance for loan losses (“ALLL”) that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 have a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral is generally evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired collateral dependent loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the property’s updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm’s length transaction. The balance which exceeds fair value is generally charged-off. In addition, taxi medallion loans on accrual status with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the ALLL in the amount of the excess of the loan-to-value over the loan’s principal balance. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired collateral dependent loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties’ estimated value had declined from when the loan was originated. The Board of Directors reviews and approves the adequacy of the allowance for

loan losses on a quarterly basis.

In assessing the adequacy of the allowance for loan losses, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. We recorded total net recoveries of \$0.5 million during the three months ended March 31, 2016, compared to total net charge-offs of \$0.3 million during the three months ended March 31, 2015. Non-performing loans totaled \$25.3 million and \$32.5 million at March 31, 2016 and 2015, respectively. The Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At March 31, 2016, the average loan-to-value ratio for our collateral dependent loans reviewed for impairment was 40.6%. As a result of the quarterly analysis of the allowance for loans losses, the allowance was deemed to be at an appropriate level and, as such, the Company did not record a provision or a benefit for the three months ended March 31, 2016. A benefit for loan losses of \$0.7 million was recorded for the three months ended March 31, 2015. Management has concluded, and the Board of Directors has concurred, that at March 31, 2016, the allowance for loan losses was sufficient to absorb losses inherent in our loan portfolio.

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

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

(Dollars in thousands)	For the three months ended March 31,	
	2016	2015
Balance at beginning of period	\$21,535	\$25,096
Provision (benefit) for loan losses	-	(734 )
Loans charged-off:		
Multi-family residential	(42 )	(97 )
Commercial real estate	-	(18 )
One-to-four family – mixed-use property	(14 )	(78 )
One-to-four family – residential	(66 )	(153 )
Commercial business and other	(25 )	(51 )
Total loans charged-off	(147 )	(397 )
Recoveries:		
Multi-family residential	13	23
Commercial real estate	-	72
One-to-four family – mixed-use property	187	3
One-to-four family – residential	365	-
Co-operative apartments	-	-
Small Business Administration	31	20
Commercial business and other	9	8
Total recoveries	605	126
Net charge-offs	458	(271 )
Balance at end of period	\$21,993	\$24,091
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	(0.04 )%	0.03 %
Ratio of allowance for loan losses to gross loans at end of period	0.49 %	0.60 %
Ratio of allowance for loan losses to non-performing assets at end of period	73.54 %	63.78 %

Ratio of allowance for loan losses to non-performing loans at end of period	86.92 %	74.08 %
---	---------	---------

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2016, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended March 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1 to January 31, 2016	-	\$-	-	899,600
February 1 to February 29, 2016	15,300	19.82	15,300	884,300

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

March 1 to March 31, 2016	-	-	-	884,300
Total	15,300	\$ 19.82	15,300	

During the quarter ended March 31, 2016, the Company repurchased 15,300 shares of the Company's common stock at an average cost of \$19.82 per share. At March 31, 2016, 884,300 shares may still be repurchased under the currently authorized stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions, subject to market conditions. There is no expiration or maximum dollar amount under this authorization.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**PART II – OTHER INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**ITEM 6. EXHIBITS**

Exhibit No. Description

- 3.1 Certificate of Incorporation of Flushing Financial Corporation (1)
- 3.2 Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)
- 3.3 Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6)
- 3.4 Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)
- 3.5 Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)
- 3.6 Amended and Restated By-Laws of Flushing Financial Corporation (7)
- 4.1 Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5)
- 4.2 Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
- 10.1 Employment Agreement between Flushing Financial Corporation and Susan K. Cullen (filed herewith)
- 10.2 Consulting Agreement between Flushing Bank and David W. Fry (filed herewith)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

- (1) Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488.
- (2) Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.
- (3) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
- (4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
- (5) Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.
- (6) Incorporated by reference to Exhibit filed with Form 10-K for the year ended December 31, 2011.
- (7) Incorporated by reference to Exhibit filed with Form 10-Q for the quarter ended June 30, 2014.

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**SIGNATURES**

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

Flushing Financial Corporation,

Dated: May 6, 2016 By: /s/John R. Buran  
John R. Buran  
President and Chief Executive Officer

Dated: May 6, 2016 By: /s/Susan K. Cullen  
Susan K. Cullen  
Senior Executive Vice President, Treasurer and  
Chief Financial Officer

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**EXHIBIT INDEX**

Exhibit No. Description

- 3.1 Certificate of Incorporation of Flushing Financial Corporation (1)
- 3.2 Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)
- 3.3 Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6)
- 3.4 Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)
- 3.5 Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)
- 3.6 Amended and Restated By-Laws of Flushing Financial Corporation (7)
- 4.1 Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5)
- 4.2 Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
- 10.1 Employment Agreement between Flushing Financial Corporation and Susan K. Cullen (filed herewith)
- 10.2 Consulting Agreement between Flushing Bank and David W. Fry (filed herewith)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)

Edgar Filing: FLUSHING FINANCIAL CORP - Form 10-Q

101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

- (1) Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488.
- (2) Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.
- (3) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
- (4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
- (5) Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.
- (6) Incorporated by reference to Exhibit filed with Form 10-K for the year ended December 31, 2011.
- (7) Incorporated by reference to Exhibit filed with Form 10-Q for the quarter ended June 30, 2014.